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THE BOOTS COMPANY

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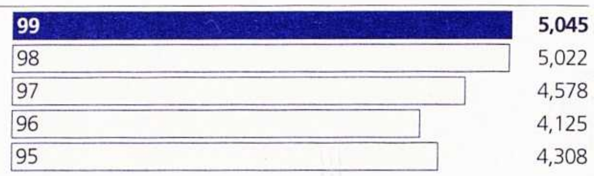
# Report and Accounts

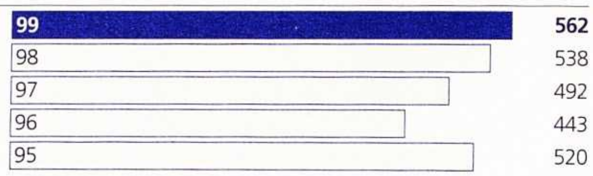
for the year ended 31st March 1999

# Financial Highlights

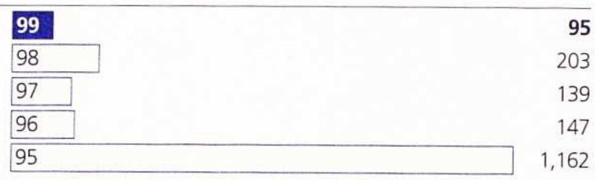
**Turnover** £m
Turnover increased by 0.5% to £5,044.6m
Turnover from continuing operations increased by 5.9%



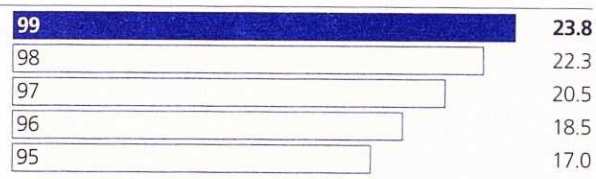

**Operating profit before exceptional items** £m
Total operating profit before exceptional items (including £1.7m share of operating loss of joint venture) increased by 4.5% to £562.4m
Operating profit before exceptional items from continuing operations increased by 4.0%
Profit before tax before exceptional items was £560.6m, an increase of 1.3%



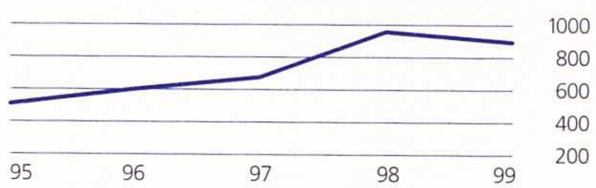

**Free cash flow** £m
1995 includes the sale of Boots Pharmaceuticals




**Distribution to shareholders** pence
Dividend per share increased by 6.7% to 23.8p
(1997 excludes 44.2p special dividend)




**Share price** pence at 31st March
The percentage change in share price for the five years to 31st March 1999 is 77.2%, from 505p to 895p



The Boots Company embraces businesses operating principally in retailing, the manufacture and marketing of health and personal care products throughout the world and the development and management of retail property.

Our objective is to maximise the value of the company for the benefit of its shareholders. We will do so by investing in our businesses to generate strong cash flows and superior long term returns.

While vigorously pursuing our commercial interests, we will, at all times, seek to enhance our reputation as a well managed, ethical and socially responsible company.

# The Company Today

| | In brief | Key facts | Employees |
|---|---|---|---|
| BOOTS THE CHEMISTS | Boots The Chemists is market leader in many areas of its business including healthcare, cosmetics, toiletries, baby consumables, films and APS photography. | **1,378** total stores<br>**1,110** small stores<br>**191** large stores<br>**33** edge of town stores<br>**27** the Republic of Ireland<br>**3** free-standing 'photo centres'<br>**14** health centres | **63,173** |
| BOOTS RETAIL INTERNATIONAL | Responsible for internationalising the Boots retail brand, as the worldwide health and beauty expert, the business is currently operating in the Netherlands, Thailand and Japan, while investigating new territories for further expansion. | **28** total stores<br>**7** the Netherlands<br>**21** Thailand | **571** |
| OPTICIANS | One of the UK's largest chains of opticians, continuing to grow market share against aggressive competition. Boots own brand products account for 68% of all sales. | **298** stores<br>**146** in-store (BTC)<br>**152** freestanding | **4,526** |
| HALFORDS | The UK's largest retailer of car parts, accessories, cycles and cycle accessories. The strong and growing Halfords brand accounts for 47% of all sales. Halfords is also one of the largest garage servicing organisations in the country. | **409** total stores<br>**95** high street stores<br>**314** out of town superstores<br>(136 with garages) | **9,936** |
| BOOTS PROPERTIES | Manages the group's freehold and long leasehold property portfolio. Its prime objective is to give the Boots retail businesses readier access to the locations they seek. | **748** retail properties | **77** |
| BOOTS HEALTHCARE INTERNATIONAL | Responsible for the development and marketing of consumer healthcare products in the UK, Europe, Africa, the Indian sub-continent, South East Asia and Australasia. The brand range includes Nurofen, Strepsils, E45, Lutsine, Onagrine and Balneum. | **23** operating businesses around the world<br>**130** countries in which products are sold | **2,242** |
| BOOTS CONTRACT MANUFACTURING | Develops and manufactures a wide range of own brand products for Boots The Chemists, consumer healthcare products for Boots Healthcare International and numerous products under contract for other major European and multinational companies. | **3** factories and<br>**1** major development laboratory in the UK<br>**4** factories in Europe | **4,155** |

| | Turnover £m | Operating profit/(loss) £m |
|---|---|---|
| **99** | **3,823.1** | **461.0** |
| 98 | 3,573.7 | 443.8 |
| 97 | 3,313.5 | 426.5 |
| 96 | 3,107.6 | 384.8 |
| 95 | 2,943.8 | 349.7 |

| | Turnover £m | Operating profit/(loss) £m |
|---|---|---|
| **99** | **15.8** | **(20.9)** |
| 98 | 5.2 | (21.2) |
| 97 | – | (8.5) |
| 96 | – | (1.1) |
| 95 | – | – |

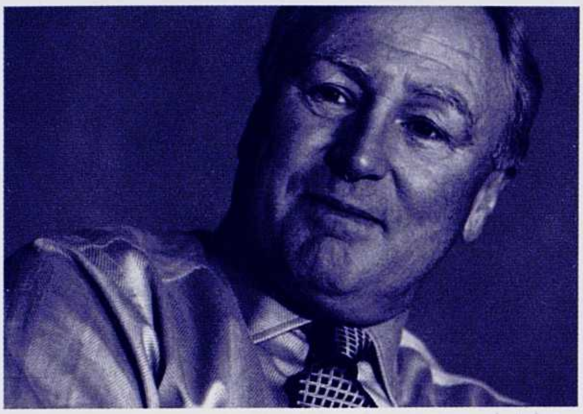
| | Turnover £m | Operating profit/(loss) £m |
|---|---|---|
| **99** | **194.3** | **14.5** |
| 98 | 182.9 | 17.0 |
| 97 | 148.1 | 13.8 |
| 96 | 132.3 | 10.9 |
| 95 | 119.1 | 8.3 |

| | Turnover £m | Operating profit/(loss) £m |
|---|---|---|
| **99** | **457.3** | **40.3** |
| 98 | 435.0 | 34.2 |
| 97 | 412.8 | 26.8 |
| 96 | 390.5 | 22.1 |
| 95 | 377.9 | 20.5 |

| | Turnover £m | Operating profit/(loss) £m |
|---|---|---|
| **99** | **96.3** | **65.2** |
| 98 | 149.6 | 76.0 |
| 97 | 102.1 | 72.1 |
| 96 | 102.9 | 68.2 |
| 95 | 98.0 | 66.8 |

| | Turnover £m | Operating profit/(loss) £m |
|---|---|---|
| **99** | **308.4** | **15.3** |
| 98 | 273.7 | 1.2 |
| 97 | 243.4 | (6.6) |
| 96 | 206.7 | (8.2) |
| 95 | 203.5 | 9.8 |

| | Turnover £m | Operating profit/(loss) £m |
|---|---|---|
| **99** | **309.8** | **24.3** |
| 98 | 314.9 | 24.7 |
| 97 | 259.5 | 19.7 |
| 96 | 239.4 | 16.7 |
| 95 | 216.0 | 17.8 |



# In a tough year for retailers, Boots returned a robust performance and enhanced its position internationally

In a difficult year for most UK retailers, Boots returned a robust performance and strengthened its position in international markets. We continue to explore our potential to become a world-class value creator. There is heightened creativity and energy in Boots today – with much more potential to realise in developing the core businesses.

**Results** As the UK economy slowed, the year under review proved a difficult one for the retail sector generally. Boots fared better than many and we continued to find ways to grow the business and to create value for shareholders.

Group sales from continuing businesses increased by 5.9 per cent to £4,912.4 million and profit before tax and exceptional items rose 1.3 per cent to £560.6 million. Operating cash flow was £601.9 million, a decrease of 0.6 per cent.

There were exceptional operating costs of £76.3 million and exceptional losses on the disposal of businesses totalling £318.9 million, relating to the disposal of Do It All – after recognising in the profit and loss account £312.2 million of goodwill previously written off through reserves – and this resulted in a profit after tax of £24.0 million.

**Dividend** The board is proposing a final dividend of 16.7p per share, making a total for the year of 23.8p – an increase of 6.7 per cent on the previous year.

**Business strategy and highlights** Boots aims to generate strong cash flows and superior returns for shareholders. To do this we maintain a high level of investment in all our businesses to increase their efficiency and effectiveness – and to meet changing consumer expectations. Each business contributes to our overall goal and benefits from its affiliation to the wider group.

We do not hesitate to dispose of businesses if doing so creates more value. The principal business portfolio change during the year was the disposal of the Do It All business to Focus Retail Group for £62.2 million.

Boots The Chemists (BTC) expanded to a total of 1,378 stores in the UK and the Republic of Ireland and created new opportunities in areas such as insurance, dentistry, chiropody and specialist skincare. During the year it doubled its investment in new stores, focusing on edge of town locations, but it is also developing smaller new store formats in locations from motorway service areas to hospitals and railway stations. Acquisition of the Connors chain firmly established Boots as the leading health and beauty retailer in both Northern Ireland and the Republic of Ireland.

Boots Retail International (BRI) aims to create value by exploiting the BTC brand overseas. After successful trials of Boots stores in Thailand and the Netherlands it began roll-outs in both countries with targets of 150 stores in Thailand and 50 in the Netherlands.

It also formed a joint venture with Mitsubishi to open stores in Japan and a lease on the first store in Tokyo has been signed.

Boots Opticians (BOL) increased its store portfolio by 13. Although sales growth slowed in 1998/99 the business gained market share and made further progress towards UK market leadership.

Halfords is well on the way to completing its transition from high street to edge of town sites. It continued to increase profitability by improving the product mix, extending its own brand ranges and targeting specific market opportunities, particularly in-car audio and car parts.

Boots Properties uses its expertise to give Boots UK retail businesses readier access to the locations they seek and to create value for shareholders through sound investment. After several years when conditions favoured the purchase and development of property for rental income, rising prices in 1997 provided an opportunity to realise value by property sales.

Boots Healthcare International (BHI) is expanding internationally, both organically and by acquisition, and focusing on core categories which now account for over 80 per cent of sales. It is the fastest growing of the larger over the counter (OTC) healthcare product companies in Europe. Profits grew sharply in 1998/99 while heavy investment continued.

Boots Contract Manufacturing (BCM) supports BTC, BRI and BHI in their new product development strategies while also building third-party business. Sales and profits fell back marginally in 1998/99 after growing strongly in the previous year, but restructuring will reduce costs.

**An increasingly international business** While UK trading conditions were tight, the potential of our growing international presence became clearer. As BHI moved into significant profit it acquired a range of German brands and gained distribution to the German pharmacy trade. BTC extended its presence in Ireland, and BRI advanced in Thailand and the Netherlands. New joint ventures were formed in India by BHI and in Japan by BRI and BCM's French and German businesses delivered strong sales growth.

Through BTC, BRI, BHI and BCM we are now trading in all 11 countries involved in the first wave of Economic and Monetary Union. Our planning continues in the UK but cannot be finalised until uncertainty over the question of UK entry is resolved. Many questions remain even after the publication of the National Changeover Plan with the Government's commitment to further planning during 1999.

**Year 2000** Our Year 2000 compliance programme is now virtually complete and we are confident that we have taken appropriate steps to protect our systems against the 'millennium bug'. We continue to work with suppliers to ensure that their preparations are consistent with ours and we have put contingency plans in place. Total costs relating to this programme will be in the region of £14 million.

**People** As we explain in more detail in the following section, Boots is changing rapidly as we adopt new ways of working and accelerate the pace of business development. We continue to demand more of our people than ever and we are grateful for the way they continue to rise to the challenge.

In April this year we welcomed Barry Clare, managing director of BHI, to the board as an executive director. Barry has created significant value for the group at BHI and will make a stimulating contribution to the board's deliberations.

**Outlook** Conditions in UK retailing will remain difficult in the first half of this year, but we expect some easing towards the end of the year. We are well placed to take full advantage of improving conditions.

BTC continues to monitor developments concerning the possible removal of resale price maintenance (RPM) for OTC medicines. We remain concerned that consumers would suffer if the removal of RPM led to a significant decrease in the number of pharmacies in the UK. RPM does not apply to own brand products. Given the importance of these products in BTC's overall medicines sales, only a small proportion of total sales would be affected by price competition in the event of RPM being abolished and so the impact on profit would be limited. The matter is now under consideration in the Restrictive Practices Court, but is unlikely to be resolved until early 2001.

We remain ambitious for growth, searching energetically for opportunities to expand at home and internationally. We have the right people, planning processes and ideas to build Boots into a world-class company. We still have a long way to go. As the following pages show, we are innovating, experimenting and learning at an increasing rate.

**Lord Blyth of Rowington**
Chairman

# The restless drive to deliver value

Our ability to grow depends increasingly on our ability to innovate. We have new ideas about business opportunities, ways of working, products and services. We will become faster at implementing those that will maximise value.

## Creating growth

**Raising our vision** From being an excellent UK company we have the ambition to deliver world-class financial performance and be acknowledged as a value exemplar. This will require us to be even more creative and to drive forward the development of our global retailing and healthcare businesses. Innovation is becoming more crucial as competition intensifies. The best companies have attended to the business fundamentals – improving efficiency, cutting out waste, raising the quality of their people. To compete in this league, innovation has become the primary lever. Radical thinking must become a way of life as we constantly find new ways to add value and make Boots uniquely attractive to consumers.

**Innovation** In March we appointed a senior executive as director of innovation, with focus on three areas: the customer offer, management processes and corporate culture. We are actively working to create a more innovative environment and a culture of openness to change. And we are building our skills in taking and managing risks, using our established methods of managing for shareholder value to try new ideas, learn from them, and sift out the most value-creating initiatives more rapidly. We are challenging all our businesses to accelerate the pace of change.

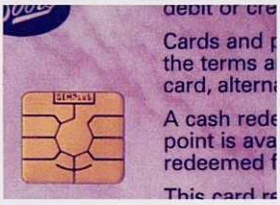
## Learning by doing

**Technology will help** Our industry-leading use of smartcard technology in the Advantage Card is enabling us to know our customers and communicate with them better – we are still only beginning to tap its huge potential. BOL now has access to the ten million card holders complementing its existing database.

BRI has demonstrated our willingness to 'learn by doing'. Now BTC has designated five outlets – two large stores and three high street pop-in units – as stores where we can test new ideas, from display layouts to the use of in-store advisers for haircare and skincare as well as dental hygienists. We have also been testing home shopping through the Mother & Baby at Home catalogue, and have gained valuable information about this way of reaching customers.

**New thinking, new products** Supported by the product development resources of BCM, BTC continues to launch many hundreds of new products each year. BHI launched nearly 70 new products in 1998/99 and has cut time to market from three years to 18 months. But we are still discovering the benefits of thinking more laterally: our 'travel insurance in a box'


**Doing more for customers** The BTC store at Bluewater in Kent is testing a variety of new customer service ideas. Among them are the touch-screen system (top) that lets Advantage Card holders drop off films for processing without queuing for service and dental hygienists (above left) offering free examinations and advice. It's easy for customers to 'read' the store layout: display units announce their contents with posters designed like magazine pages (above right), angled so that walking through the store feels like flicking through a magazine.




**Smarter than the average card** The chip (above left) embedded in the Advantage Card makes it far more than the average loyalty card. As well as rewarding customers for shopping at Boots we are learning about their shopping behaviour so that we can group displays better and tailor promotions to match customers' personal profiles. Advantage Card data helped us compile the mailing list for the Mother & Baby at Home mail order catalogue (above right), which has given us valuable experience in reaching customers in their homes.


**Self medication** We are an increasingly international business, investing substantially in new products and opportunities overseas. During 1998/99 in Germany, for example, BHI launched the Balneum Intensiv skincare range (left) and acquired the rights to Dobendan throatcare products (far left).



**Enquire within** Expert advice has always been a core part of the Boots offering, helping to differentiate us from competitors. In the Bluewater store a central information point (left) provides a gateway to specialist staff and helpful leaflets. And over 90 BTC stores now have Specialist Skincare areas (above) where customers can seek advice from an expert and buy suitable products on the spot.

INVESTOR IN PEOPLE

POSITIVE ABOUT DISABLED PEOPLE

offering has made us the UK's second largest direct provider of travel insurance, from a standing start in April 1998 and in May 1999 Halfords launched its own brand tyre range.

**Ambitious new services** In the past year we have begun to experiment more ambitiously with the range of services that we offer under the umbrella of the Boots brand – including dental and GP surgeries and in-store chiropody. And by introducing specialist skincare units into BTC stores, staffed by trained advisers, we have created a new platform for BHI's growing portfolio of skincare products, many of which are currently better known in mainland Europe than in the UK.

But all this is just the start. In the coming years we intend to surprise ourselves, as well as our customers and shareholders, with what we can accomplish.

## Inspiring our people

**Innovation comes from people** From the way they think, and the way they work together. In the past year our efforts to develop a more innovative culture have begun to bear fruit in heightened creativity and energy.

**Inspiring leaders** To foster creative thinking and new ideas we needed a new style of leadership. We redefined what we wanted from our leaders. We have started to measure our top 250 managers against the characteristics we have identified. Use of 360° feedback – from those who work with them and for them – coupled with performance related information will give them a rounded picture of how they should develop to deliver the leadership Boots needs. This will provide the basis for coaching and self development with specific emphasis on 'leading the thinking, leading the pace and leading the team'.

**Investing in people** Throughout the organisation, creative thinking needs to be aligned with the overall business strategy. So we are translating overall business objectives into meaningful personal goals for individuals.

We invest heavily in training and development and three of our businesses are accredited Investors in People (IIP). In 1998/99 BTC became the largest UK company to receive accreditation for the third time and the IIP assessors specially commended Boots Properties' approach to personal learning – which includes giving each employee a personal budget for study in an area of their choice. We encourage teams to take part in community projects together – learning valuable lessons about one another while benefiting local causes. In our stores we have made major investments in improving skills so that customers experience noticeably superior advice and expertise. We are sharing expertise between the businesses and have considerably increased inter-business career moves by the use of groupwide networks.

**A machine for thinking in** Investment of £50 million in the new BTC head office building will bring together the entire head office team who were previously separated in offices around Nottingham. More importantly, it has enabled BTC to rethink its working methods radically. If, as Le Corbusier claimed, a house is a machine for living in, an office can be a machine for thinking in. The new office is already improving the quality of our thinking and learning. It is designed to change work patterns and foster teamwork, communication and networking. Arranged in 'neighbourhoods', it has no private offices – not even for the managing director.

**New people, new structures** New initiatives demand different people with new skills and new ways of working. After the sale of Boots Pharmaceuticals in 1995 we had few overseas staff; we now have significant numbers in BHI, BRI and BCM. By the year end BRI employed over 750 foreign nationals in the Netherlands, Thailand and Japan – with just 30 British expatriates. BTC is employing more trained specialists – chiropodists, dental hygienists, skincare experts, beauticians – and re-engineering the pharmacy to give customers better access to its pharmacists.

New structures are helping us work more effectively. BTC and BCM have reorganised on 'category management' lines: multidisciplinary teams focused on categories such as skincare or dental products are better able to meet customer needs and bring product ideas onto the shelves even faster. BHI recently became the first Boots business to structure its management around processes: it now manages six of them – such as 'global category management' and 'maximising value from customer relationships'. These are crucial to value creation and customer service. Importantly, the structure was developed by the people involved, not imposed from outside.

**New attractions** As we become an increasingly international, faster-paced, more innovative organisation, we are seeing another significant change: we are becoming more attractive to the very best graduates and other job applicants. In our target universities for graduate recruitment, applications to Boots rose by 32 per cent. Like us, our graduate entrants see an exciting future ahead.

**Scenery of change** At BTC, the latest agent for change is a building. The new head office is designed to stimulate better communication and teamwork. People work in 'neighbourhoods' (left) and meeting areas (above) are relaxed and open.

**Faster to market** BCM has reorganised new product development with multidisciplinary teams (left) focusing on specific categories such as cosmetics and skincare. The result: a faster development process, which is more responsive to market needs and opportunities.

**Graduating to Boots** Graduates like Ayshen Djemil and Toby Randall (below) are voting with their feet – applications from our target universities are up by a third. Ayshen now works in Boots Properties and Toby is in BHI's UK healthcare business.

Operational Review Our continued success depends on understanding not just *what* our customers want but *why*. When they buy shower gel, are they looking for soap – or invigoration? Do five litres of motor oil represent a sump full of lubricant or a trouble free journey? By knowing the difference, we can make a difference to their lives. It's the key to our continuing growth and success. So what do we provide…

invigoration

## Boots The Chemists
## Continuing to increase sales in difficult conditions and moving ahead with a stream of innovations

| | |
|---|---|
| Managing Director | Steve Russell |
| Sales £m | 3,823.1 |
| Increase % | 7.0 |
| Profit £m (before exceptionals) | 461.0 |
| Increase % | 3.9 |
| **Sales split** | **%** |
| Healthcare | 42.9 |
| Beauty | 40.3 |
| Leisure | 16.8 |

Boots The Chemists continued to increase sales despite the unsettled retail climate. As a result, turnover rose 7.0 per cent to £3,823.1 million, with counter sales up 6.6 per cent and dispensing up 7.9 per cent. Profit before exceptional costs arising from the integration of acquired businesses in Ireland was £461.0 million, an increase of 3.9 per cent.

**Strategy** BTC has four strategic goals. It is differentiating its customer offer by focusing on health and beauty, with the ambition to become the leading expert in products and services that enhance customer wellbeing. It continues to expand its store portfolio in a variety of formats, and to explore emerging shopping channels, to reach customers in the most profitable way. It is creating new areas of profitable growth, launching new products and activities that enhance value creation and increase its focus on health and beauty. It has increased the pace in its process of fundamental change to become a more efficient and effective organisation.

**Expertise in wellbeing** Sales in BTC's core product areas – up 6.4 per cent in health and 8.3 per cent in beauty – reflected its success in building customer perceptions of Boots as the expert on skincare, haircare, bodycare, vitamins and supplements.

To trial and develop further initiatives it is using five stores of differing sizes. At Bluewater in Kent, specially trained consultants provide advice on haircare, skincare and cosmetics. There is also a chiropody practice, nailcare service, oral hygiene area and a range of other innovations including an automated film processing drop-off point for Advantage Card holders.

Pilot programmes are under way to extend the Boots brand into healthcare services. BTC is trialling a limited number of Medicentre GP surgeries in Boots stores. The first two have opened in Kingston and Birmingham. Two more open this year. BTC has begun testing Boots brand chiropody and dental practices. Over the next two years it plans to invest some £1 million in six chiropody practices in large stores and some £4.5 million in six dental surgeries both in-store and in stand-alone town centre locations.

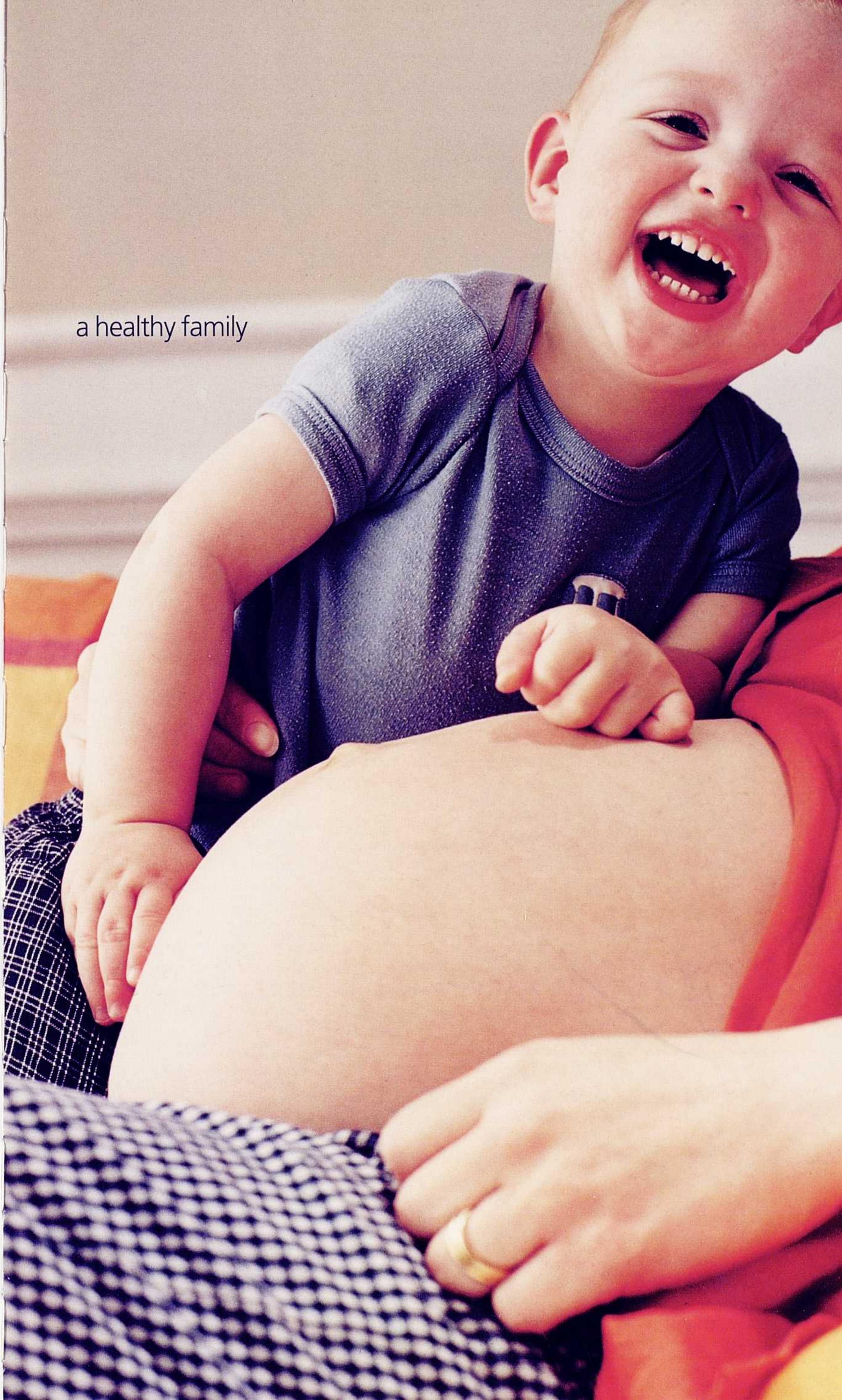
BTC continues to build on its strength in pharmacy by improving customer service and increasing the accessibility of its pharmacists as a source of expert advice. A carousel containing the 700 most commonly prescribed medicines has proved to be one of the year's most successful innovations, enabling pharmacies to dispense 80 per cent of prescriptions within two minutes. Previously this took up to 20 minutes.

If resale price maintenance (RPM) on some OTC and pharmacy products is removed there will be an impact as a result of price competition. The issue is currently before the Restrictive Practices Court and a decision is not expected until early 2001. RPM does not apply to own brand products and as these are such a significant proportion of BTC sales the overall potential impact on profits is limited.

**Store development and new channels** Investment in new stores peaked at just under £200 million, more than double last year, increasing total store space by some 5 per cent, including 12 edge of town stores and other major developments at Trafford Park, Birmingham and Bluewater.

BTC is market leader across all of Ireland. In April 1998 it acquired the Connors pharmacy chain for £17 million, gaining 25 stores in Northern Ireland and five in the Republic of Ireland, as well as four in England and Wales.

Experiments with direct delivery channels continue. Launched in March 1998, the Mother and Baby at Home mail order catalogue has been sent to 500,000 mothers and mothers-to-be identified largely from Advantage Card data. The catalogue enables BTC to


a healthy family

sell products such as prams and pushchairs that are no longer cost-effective to sell in stores and provides experience that will be applied in further home shopping initiatives.

By the year end there were more than ten million Advantage Cards in issue, making it the largest smartcard loyalty scheme in the world. The additional sales generated by the card fully cover the cost of operation, and 40 per cent of counter sales are now linked to the card. As well as using the card for conventional loyalty card promotions such as 'double points' weekends, BTC is using its smartcard capabilities to understand customer responses and behaviour better. This enables product displays to be grouped in ways that are more enticing to customers with specific offers targeted on identified customer groups.

**New products and activities** In April 1998 BTC launched a range of nine off-the-shelf insurance products, providing instant health and travel cover. Products are underwritten by Royal & SunAlliance, which also provides claims services. It has taken some time to build customer acceptance for health insurance, but travel insurance has proved an immediate success. BTC has become the UK's second largest direct provider of travel insurance.

The Photo area has had tremendous success since the decision in January 1998 to make Boots Europe's first national one-hour Advanced Photo System (APS) film processor. BTC now has some 500 in-store minilabs and a 39 per cent share of the APS processing market. Camera sales grew by 45 per cent, boosted by strong growth in APS models, which now account for over half of all BTC camera sales.

BTC has collaborated with BHI and other suppliers in an innovative launch of 'dermocosmetic' skincare products including BHI's Lutsia range into the UK market. In January BTC began opening specialist skincare units in larger stores, where a trained adviser is available to help customers with skin problems and recommend appropriate products.

BTC marked the 60th anniversary of the market-leading Soltan suncare products with a reformulated and repackaged range offering best-ever performance.

Another high-profile launch was the Ruby & Millie cosmetics and skincare range developed in-house by BCM.

As we move into the next century BTC will benefit from sponsorship of the Body Zone in the Millennium Dome. The Body Zone has already become the Dome's best known feature and will underline BTC's position as the nation's leading health and beauty retailer.

**Effective organisation** During the year BTC adopted a more customer-oriented field operations structure. It is now organised by region rather than store size.

The first phase of the £50 million new head office building opened in January. The new facility is state-of-the-art, of outstanding quality and provides highly flexible space.

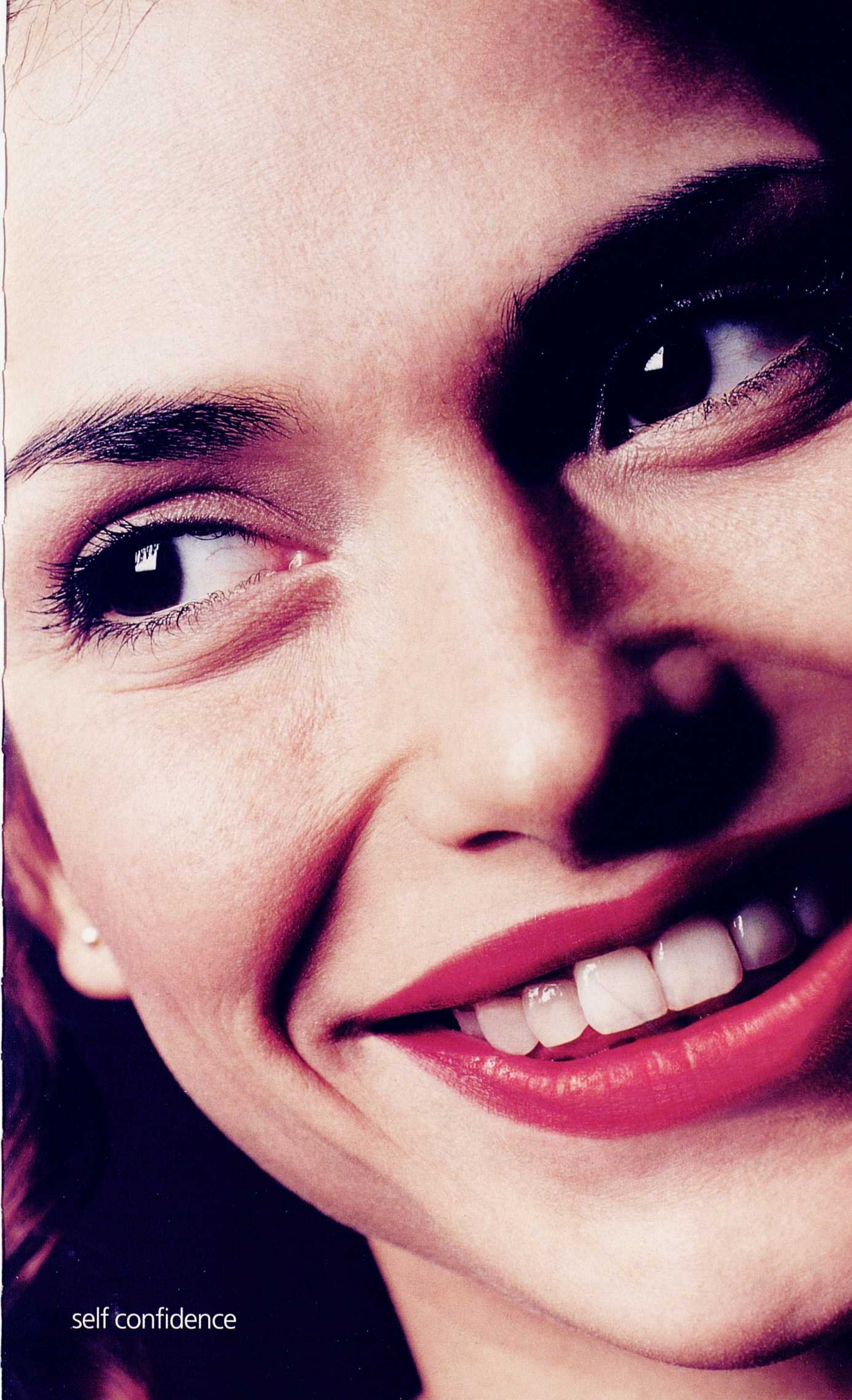
The building has enabled BTC to revolutionise working practices. The potential, already being realised, is for significant improvements in efficiency and effectiveness. The new working environment is a platform for much better team working and far greater flexibility.

Completion of the second phase in September will enable BTC to bring together the entire head office team in one complex, thereby vacating a number of offices in central Nottingham.

These new facilities are a catalyst for organisational change. BTC's property, planning and store design operations were restructured in May. Work has begun on a wider programme to reshape head office activities and there will be substantial improvements in the quality, vision and innovation of operations.

During the year BTC began an overhaul of the supply chain that will improve both costs and responsiveness. It will benefit from the new £30 million warehouse which opened on the headquarters site in October 1998, exactly a year after its predecessor was destroyed by fire.

**Outlook** BTC continues to occupy an unchallenged position of trust as a provider of health products and advice, as well as enjoying an excellent reputation as a beauty retailer. By continuing to pursue the four strategy goals, the business will build on these strengths to create even stronger differential advantage in health and beauty.


self confidence


something new

## Boots Retail International
## Forging ahead in Thailand and the Netherlands and preparing to launch in the huge Japanese market

| | |
|---|---|
| Managing Director | Peter Roche |
| Sales £m* | 15.8 |
| Increase % | 203.8 |
| Loss £m | 20.9 |
| Decrease % | (1.4) |
| **Sales split** | **£m** |
| Thailand | 7.7 |
| The Netherlands | 6.5 |

* including £1.6m sales to joint venture

Boots Retail International had a very successful year and gained board approval for expansion in Thailand and the Netherlands. Sales grew to £15.8 million (up from £5.2 million last year) with the opening of 15 new stores in Thailand and four in the Netherlands. Despite this rate of expansion, the operating loss including central costs and set-up costs for Japan were held at £20.9 million, just below last year's level.

**Strategy** BRI is taking the Boots retail brand into new markets where there is potential for significant competitive advantage. It is capitalising on growing interest throughout the world in health and beauty products and increasing trends towards self-medication. The Boots format offers an unbeatable range of products, including unique own brands, high quality service by knowledgeable staff and a distinctive, easily shopped store environment.

BRI has been 'learning by doing' in three markets: Europe, Asia and Japan. Europe is close and offers ease of product registration within the European Union, although regulation constrains pharmacy chains and sales of OTC medicines. Asia offers a clear opportunity to present a differentiated offer, as does Japan, the second largest market in the world.

**Thailand** There are now 21 stores trading in Thailand, of which 15 opened during the year. A further 25 are expected to open in the current year. These will mainly be sited in Bangkok and the principal tourist locations. The stores have traded well through the recession and achieved sales of £7.7 million, showing real growth in contrast to most of the local market. Typically, they are profitable at store level within the first year because of the low cost environment. Own brands account for 48 per cent of sales.

**The Netherlands** There are now seven stores trading in the Netherlands. Recent store openings have been of 400 square metres sales area with an innovative and enhanced display for beauty products, reflecting learning from the larger pilot stores. This format has researched well with customers and is trading successfully. In January BRI announced plans for a further 45 stores with ten planned to open in 1999/2000. The stores offer a full health and beauty range, although pharmacy is developing more slowly in line with changes in the Dutch market. Sales amounted to £6.5 million, of which 33 per cent were own brands.

**Japan** This is BRI's most challenging market. Prospects have been improved by the formation of a joint venture with the Mitsubishi Corporation. The joint venture plans to open three or four pilot stores in Tokyo in 1999/2000 and the lease for the first premises was agreed in March. In preparation, 1,300 Boots lines have already been reformulated by BCM, registered and shipped to Japan.

**Outlook** This young business has been greatly strengthened by a year of learning and development. It now understands the appropriate store sizes for different locations and markets, has greater expertise in managing its global supply chain and is establishing global standard systems. It is also successfully developing the skills of locally recruited staff: of more than 400 staff in Thailand only four are now UK expatriates. This year, attention will focus on launching the brand in Japan, expanding and driving the performance of the established businesses while exploring potential new territories for future growth.

## Boots Opticians
## Continued growth in sales and market share against increasingly aggressive competition in tough market conditions

| | |
|---|---|
| Managing Director | Stephan Murray |
| Sales £m | 194.3 |
| Increase % | 6.2 |
| Profit £m (before exceptionals) | 14.5 |
| Decrease % | (14.7) |
| **Sales split** | **%** |
| Spectacles | 72.0 |
| Contact lenses | 16.0 |
| Other | 12.0 |

Boots Opticians has continued to grow sales and market share against competition which is becoming increasingly aggressive. Sales rose 6.2 per cent to £194.3 million but rising costs and investments reduced operating profit by 14.7 per cent to £14.5 million. The main factor was increased investment in people to enhance customer service, in systems to improve operational effectiveness and in new stores to support long term growth.

**Strategy** BOL complements the BTC health and beauty offer. It aims to become the UK market leader in optical retailing by leveraging the Boots brand values of trust and inspiration through quality, professionalism, product innovation, value and customer service.

**Sales** The intensity of competition from the other three major players continues to grow, particularly since two have been taken over by larger European groups. BOL did well to achieve like for like sales growth of 3.3 per cent in a high ticket, discretionary market within an economy that has experienced a sharp slowdown. This sales growth has been achieved principally through higher average transaction values, with customers responding positively to the Boots quality product offer.

BOL joined the Boots Advantage Card scheme in November and now has access to ten million card holders, complementing its existing patient database of over seven million customers. Adding BOL to the total Advantage Card proposition has had a very positive impact on customers and has allowed the business to identify and target customers who buy eye care products from BTC but do not visit BOL.

**People** Skilled staff, especially optometrists, remain in short supply in the industry. BOL is still the largest provider of pre-registration places for optometrists and their first-time success rate in the 1998 examinations was well above the national average. The business also maintained a high level of investment in training other staff groups such as store managers, contact lens opticians and sales consultants.

**New products** The strong trend towards fashion and designer eyewear, which encourages multiple and frequent purchasing, has continued. BOL has responded this year with the launch of Katherine Hamnett, DKNY, Oliver and the Flexon ranges. Simultaneously, the business has substantially upgraded its Boots brand ranges, extending its Zero frameless range to all stores, launching an ultra-light titanium range and achieving a major success with NEWS, a range designed by Jeff Banks specifically for teenagers.

The total product offer has been remerchandised by frame shape across the whole chain, to simplify the selection process for the customer.

**Capital investment** BOL accelerated its store opening programme with 23 openings during the year, including relocating eight stores to better sites. The business also refitted 25 stores.

In October 1998 BOL began testing a new computerised store dispensing system linked to EPOS tills. This integrates the whole shopping process from customer handling through to supplier ordering. Following successful trials it will be rolled out to stores in 1999/2000.

**Outlook** This market is likely to remain tough even with the Government's decision to extend free eye tests to the over-60s from April 1999.

The roll out of the new store systems throughout the chain, at a cost of some £3.5 million in 1999/2000 will help BOL to move towards its ambition of market leadership.


a different me

## Halfords
## Good profit growth for the third year running, as sales and margins rise and garage servicing moves into operating profit

| Managing Director | Ken Piggott |
|---|---|
| Sales £m | 457.3 |
| Increase % | 5.1 |
| Profit £m | 40.3 |
| Increase % | 17.8 |
| **Sales split** | **%** |
| Cycles and cycle accessories | 23 |
| Car parts | 16 |
| Auto accessories, tools and audio | 50 |
| Garage servicing | 11 |

Halfords delivered good operating profit growth for the third year running – up 17.8 per cent to £40.3 million – with sales growth 5.1 per cent (like for like 3.3 per cent). Margins benefited from improvement in the sales mix, boosted by own brand sales. After several years of steadily reducing losses, garage servicing moved into operating profit.

**Strategy** Halfords is improving performance by building on its unique advantages: greater scale than its competitors and excellent customer standing as a trusted brand offering good range and value. It is increasing the pace of its development to maximise the benefit of these advantages. Opportunities currently being pursued include range enhancements to increase the appeal of the Halfords brand; targeting higher-spending customer groups such as auto and cycle enthusiasts; training staff to improve the conversion of customer traffic into sales and extending the Halfords brand and skills into related areas. It is continuing its repositioning from high streets to the expanding superstores chain and matching the size of stores to the needs of their catchment areas.

**Sales** Sales of in-car CD and bodycare products were particularly strong. Audio sales grew 30 per cent overall, lifted by the introduction of more major brands and free fitting. Own brands continued to grow – rising to 47 per cent of total sales. In recent years Halfords has won 30 awards for product design and innovation, and in sectors such as oils, paints and car accessories, it is now the leading automotive brand. In May 1999 it launched its own brand tyre range extending the Halfords brand franchise into a new area. The acquisition of rights to the Ripspeed brand in summer 1998 has taken it into new markets such as alloy wheels, chrome- and carbon-look styling and performance accessories.

In a cycle market that continued to contract, Halfords sales were slightly down, but market share increased substantially. As part of a move to more specialist products, Halfords has introduced a further range of premium Carrera cycles and the aspirational Voodoo brand. Motor scooters are now sold in 78 stores with an inclusive package of insurance, training and servicing.

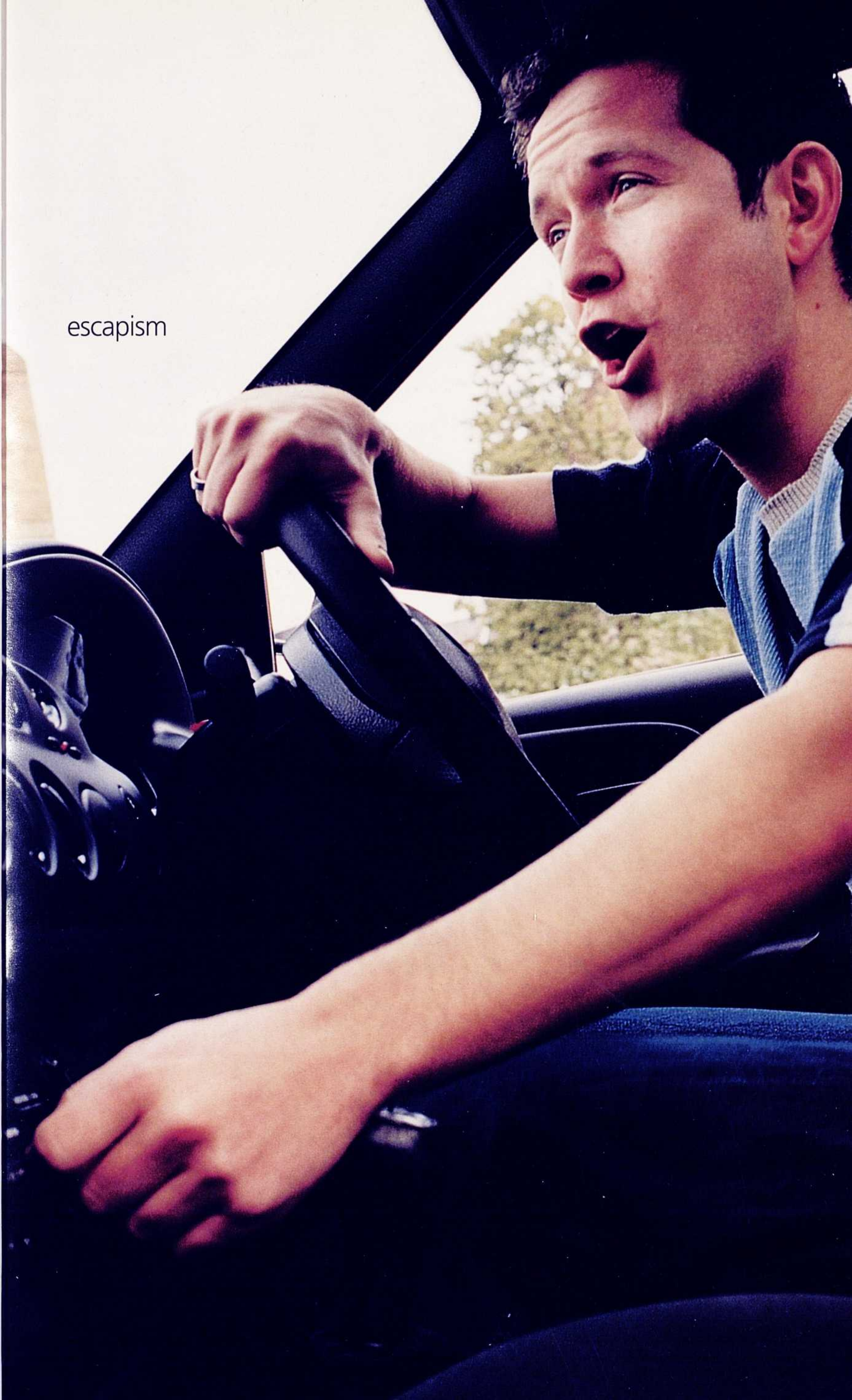
Garage servicing sales grew 8 per cent and made a small operating profit. Key factors were; greatly improved productivity, the partnership with Daewoo, aggressive promotion, and a fleet servicing initiative which has won new contracts from corporate customers.

**Store investment** A further 16 superstores brought the total to 314. Superstores now represent 75 per cent of the portfolio and generate 90 per cent of retail sales. A further 19 closures reduced the total of high street stores to 95.

Halfords has begun a substantial programme to test new formats. This includes smaller format stores targeting the 'auto enthusiast', and a 50 square metre unit in an M4 motorway service area.

As the efficiency and productivity of superstores increases, many of the older ones are proving unnecessarily large. Through subletting and relocation these are being reduced to the optimum size of around 750 square metres in a programme that could release significant value in about 100 stores.

**Outlook** Halfords expects to maintain profit growth while continuing to invest substantially in innovation and new formats. This will ensure that it generates maximum value from its unique market advantages while sustaining profit growth over the longer term.


escapism

## Boots Properties
# Another good result, but turnover and profits are lower after last year's record programme of property sales

| | |
|---|---|
| Managing Director | Ian Webster |
| Sales £m | 96.3 |
| Decrease % | (35.6) |
| Profit £m | 65.2 |
| Decrease % | (14.2) |
| **Boots Properties store portfolio** | |
| Single units | 690 |
| Multi-tenanted properties | 58 |

As Boots Properties approached the end of the disposal programme begun in 1997, sales fell 35.6 per cent to £96.3 million and operating profit fell 14.2 per cent to £65.2 million. This was a good result in line with expectations after exceptionally high revenues from property sales in the previous year. The business generated free cash flow of £24.1 million during the year.

**Strategy** Boots Properties owns and manages freeholds and leaseholds on nearly 750 of the group's stores. It also applies its property management and development skills in the wider retail property market. Its objectives are to give Boots retail businesses readier access to the locations they seek and to create value for shareholders through sound investment. Its investment strategy changes to exploit prevailing conditions as the property market moves in a broadly cyclical pattern. After several years when conditions favoured buying and developing properties to hold for rental income, sharply rising prices in 1997 provided an opportunity to realise value by selling properties. The market became less buoyant during 1999 and the strategy moved from aggressive selling to holding. At this stage of the property cycle, Boots Properties is no longer seeking new shopping centre development opportunities. The business is firmly focused on meeting the property needs of other Boots businesses, particularly in edge of town retail parks.

**Sales** As a result of the large-scale disposals in 1997/98, rental income from third parties fell 32.1 per cent to £12.5 million. Rental income from other companies in the group fell slightly to £79.3 million.

**Property divestment** Revenue from property divestments fell sharply as the disposal programme slowed down; disposals totalling £53.4 million raised profits of £3.7 million, compared with £301.1 million proceeds and £46.4 million profit in 1997/98.

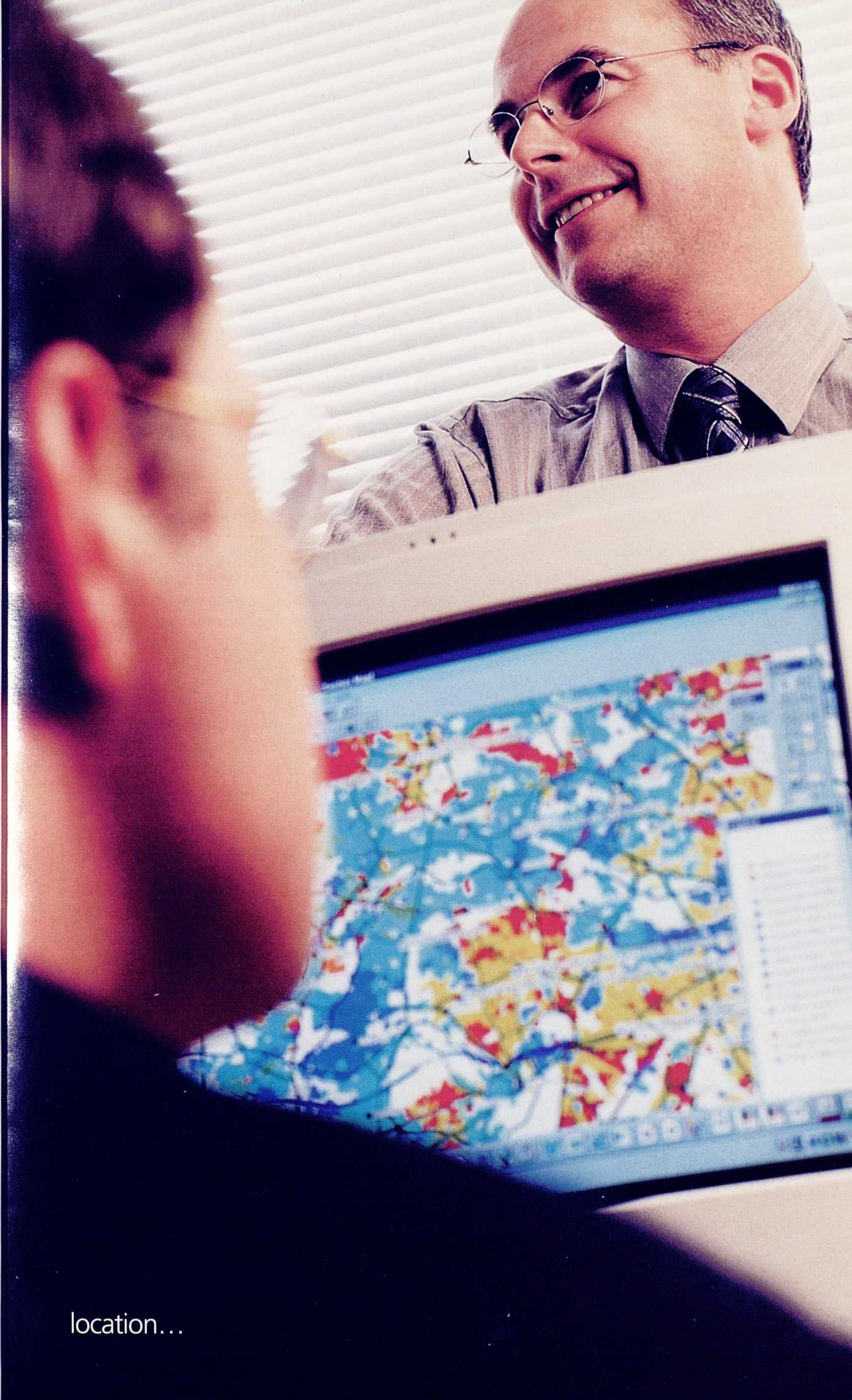
**Investment** Investment totalled £78.1 million. The Land of the Prince Bishops shopping centre in Durham was completed in November. It was virtually 100 per cent let on opening and has been trading well ahead of expectations. At Kendal, Boots Properties completed Elephant Yard, another shopping centre development, which satisfies a long-standing requirement for a large BTC unit in the town.

During the year, Boots Properties had great success in obtaining new edge of town sites for BTC. The business was also very active in town centres: in Guildford it created expansion space for the BTC store by assembling adjacent sites and redeveloping the whole block, while in Oxford it assembled a site to prepare for the extension of one of BTC's most intensively traded town centre stores.

As well as obtaining new superstore sites for Halfords, Boots Properties is helping Halfords achieve its target space requirement in the existing superstore portfolio by relocating stores or subletting surplus space.

Boots Properties invested £1 million in an information system that will improve its ability to identify investment opportunities, and streamline its financial processes. It also won reaccreditation as an Investor in People, with a particular commendation for the way it encourages learning throughout the business.

**Outlook** 1999/2000 will be another busy year for Boots Properties, which will increase its focus on the group occupied portfolio, while seeking new stores and innovative property solutions for BTC and Halfords.



location…

## Boots Healthcare International
## Moving into significant profit while increasing investment

| | | |
|---|---|---|
| Managing Director | | Barry Clare |
| Sales £m | | 308.4 |
| Increase %* | | 15.8 |
| Profit £m (before exceptionals) | | 15.3 |
| **Sales split** | | |
| Core brands sales | 1999 | increase %* |
| Analgesics £m | 63.7 | 23.3 |
| Cough and Cold £m | 59.1 | 11.4 |
| Skincare £m | 116.1 | 39.0 |

* comparable exchange rates

Despite tough conditions in Russia and Asia, BHI maintained vigorous progress. Sales rose 15.8 per cent at comparable exchange rates, substantially ahead of the market, to £308.4 million. Operating profit before exceptionals increased from £1.2 million to £15.3 million despite an increase in brand marketing investment. BHI is now the fastest-growing of Europe's leading OTC healthcare product companies and Nurofen is Europe's fastest-growing major OTC brand.

**Strategy** BHI develops and markets self-medication brands in 130 countries. Its three core categories – skincare, analgesics and cough and cold – together make up about half the OTC market. Products within core categories now account for more than 80 per cent of BHI's sales. During the year nearly 70 new products were launched.

**Analgesics** Core brand sales grew by 23.3 per cent at comparable exchange rates, with Nurofen overtaking Anadin to achieve UK market leadership for the first time. Nurofen Plus, which combines ibuprofen with codeine, increased its market share in pharmacy in the UK, the Republic of Ireland, France and Belgium. The 28 Nurofen launches during the year included three Nurofen products in Poland.

**Cough and cold** Core brand sales in this category increased overall by 11.4 per cent at comparable exchange rates. In Asia slower growth has been offset by sharply increased market shares which will provide competitive advantage when recession lifts. Sales in Thailand and Singapore benefited from a new Strepsils herbal mint flavour. In the UK, Strepsils sales growth of 16 per cent was supported by the successful launch of Strepsils Zinc Defence lozenges, designed to help support the body's immune system against infection. Other new products included, in New Zealand, Strepfen lozenges with flurbiprofen, for severe sore throats and in Italy, Benactiv Gola, an anti-inflammatory flurbiprofen mouthwash.

**Skincare** A key step in the internationalisation of BHI's skincare products was the introduction of Lutsia's dermocosmetic ranges to the UK and Germany. In the UK they were launched into over 90 BTC stores on a free-standing specialist skincare display unit which incorporates a consultancy area for a trained adviser. New products included E45 Skin Confidence, Balneum Intensiv from Hermal and 14 new Lutsia skincare products.

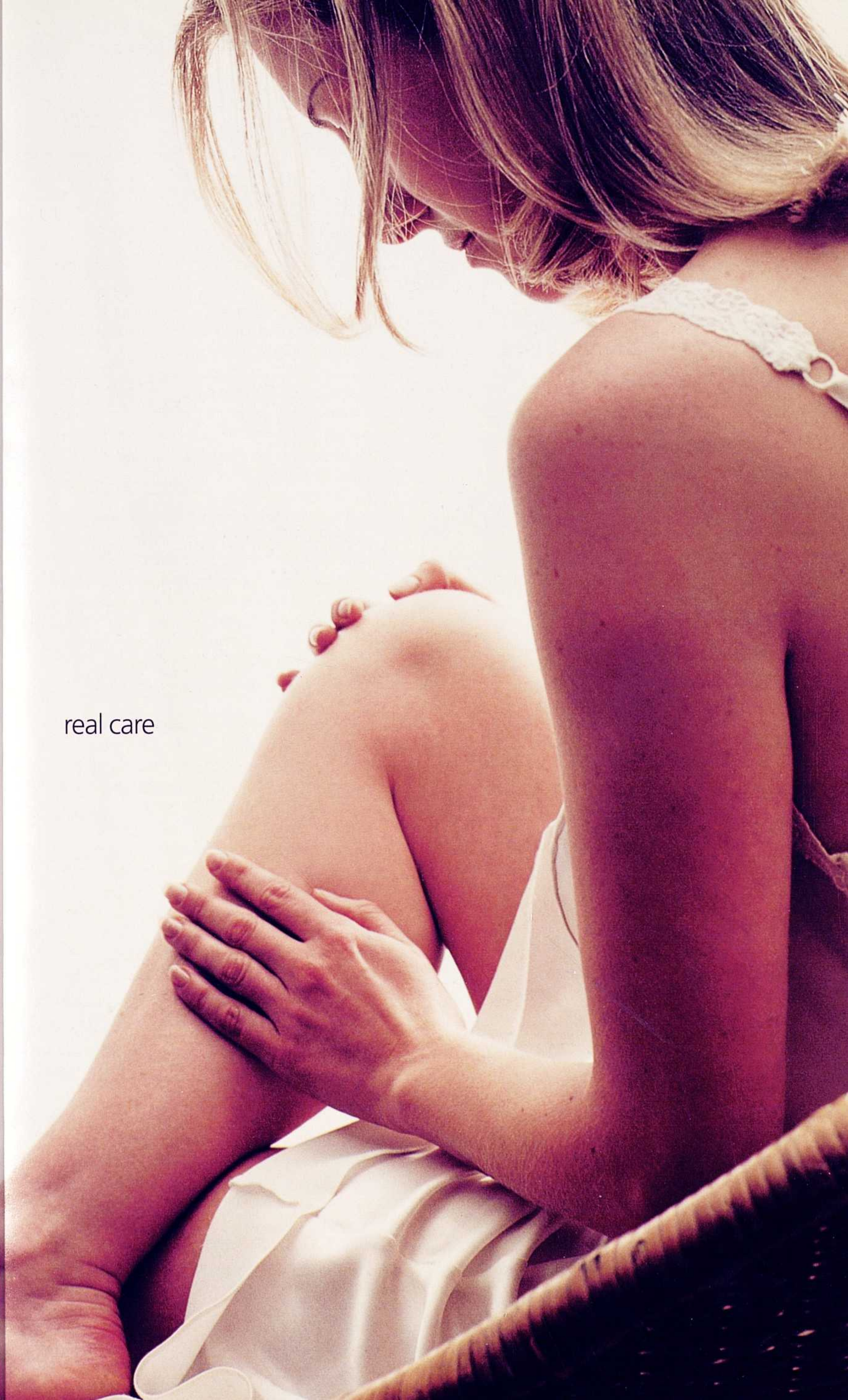
**Infrastructure** In August, BHI acquired from Klosterfrau in Germany the rights to the Dobendan throat care range and Migränin, an OTC oral analgesic. Together with its existing Hermal skincare range, this means that BHI now has brands in each of its core categories in the important German market. The agreement gives BHI access to Klosterfrau's distribution to the German pharmacy trade.

In December 1998 BHI's joint venture with Nicholas Piramal India Limited (NPIL) became operational. The venture is initially marketing Strepsils and Icy throat lozenges, Sweetex artificial sweeteners and NPIL's skincare brands. The deal also gives BHI access to NPIL's strong distribution capabilities in India and provides a platform for rolling out further BHI products.

To manage its business locally, BHI replaced distributors with new operations in five further countries – Austria, Hong Kong, Poland, Portugal and Switzerland. It now has operations in 22 countries in addition to its exports business.

An exceptional charge of £5.2 million relates to investment in the new European Service Bureau, which will provide economies of scale in back office activities.

**Outlook** BHI has moved into significant profit as it continues to reap the benefits of product innovation and strategic brand investment. This strong performance together with increasing brand penetration, provides exciting prospects for future growth.


real care

## Boots Contract Manufacturing
Continuing good progress in the continental European companies, offset by a difficult year in the UK

| | |
|---|---|
| Managing Director | John Watson |
| Sales £m | 309.8 |
| Decrease % | (1.6) |
| Profit £m (before exceptionals) | 24.3 |
| Decrease % | (1.6) |
| **Sales split** | **%** |
| Boots The Chemists | 44.0 |
| Boots Healthcare International | 16.6 |
| Third party | 39.4 |

Boots Contract Manufacturing had a difficult year. Sales of £309.8 million were 1.6 per cent down on last year, with all of the decline arising in the UK business. Operating profit fell marginally to £24.3 million before exceptional restructuring costs of £2.5 million.

**Strategy** BCM has two customer groups: internal Boots customers – BTC, BRI and BHI – and third party customers in the UK and continental Europe. The partnerships with BTC, BRI and BHI facilitate the development and production of innovative, market-focused and differentiated products. Additionally it is growing third party business through long term relationships with major European retailers and multinational companies requiring the highest standards of service and quality. There are growing opportunities to work with brand owners who want to sub-contract production to a few high quality manufacturers.

**Sales** Sales were hit by a combination of factors, most of which worsened in the second half. In the UK, business with retail customers was depressed by a poor summer which dampened demand for suncare products and by the aggressive promotional activity of brand owners aimed at countering the growing success of own label products. In addition sales were further reduced by BTC's programme to reduce stock levels. As expected, sales to Knoll at £8.5 million were around half the level achieved in the previous year following the expiry in March 1998 of the three-year supply contract negotiated at the time of the disposal of Boots Pharmaceuticals to BASF.

Highlights included the success of several new ranges developed for BTC, notably new dental care and baby products. The Soltan range was reformulated and repackaged. Another significant development was the high profile Ruby & Millie cosmetics and skincare range, created and manufactured by BCM for BTC – also sold by Harvey Nichols and Selfridges.

Sales to BHI rose 12.9 per cent, driven by strong BHI sales of Nurofen and Strepsils. The close development and production co-operation between BCM and BHI has contributed significantly to the growth of this business. BRI provided a valuable source of new business, both for manufacturing and for the reformulation of some 1,300 lines for the Japanese market. Manufacturing of proprietary brands for external customers grew 13.7 per cent.

**International companies** Continental European companies made good progress. Overall sales grew 13.4 per cent to £62.8 million, with profit up by 10.7 per cent to £3.1 million. In France Roval and BCM Cosmétique grew both sales and profit ahead of last year. In Germany BCM Kosmetik performed particularly well, with sales lifted substantially by the transfer of No7 export production from Airdrie.

**Capital investment** Capital spending began to fall after several years of heavy investment in new technologies and equipment to accommodate increased demand. From £26 million in 1997/98, it fell to just below £20 million in the last financial year and will be closer to £15 million this year. Investment in BCM's increasingly important new product development capability included £650,000 in a state-of-the-art evaluation suite for substantiating product performance claims.

**Outlook** Reorganisation of new product development has made it faster and more efficient. BCM took firm action to reduce costs, which will bear fruit in 1999/2000. Restructuring, phasing out some 300 jobs, is progressing and will be completed later this year. Although the impact of stock reduction by BTC will continue during 1999, BCM will benefit increasingly from growth of the BRI and BHI businesses. Conditions will still be tough, but the longer term prospects are encouraging.


safer sun

## For the third year running a MORI public opinion poll has ranked Boots in the UK's three most socially responsible companies

| Key initiatives |
|---|
| £4.6m of cash, merchandise and gifts in kind to community and charities |
| Boots Science Award |
| Boots Family Learning Project |
| 250 staff in UK's largest volunteer tutoring scheme |
| Boots Books for Babies |

In an annual MORI survey, the public rated Boots as one of the top three companies for taking its corporate social responsibility seriously. An unprecedented 100 per cent of those that knew about our community activities had favourable views of Boots – an important factor when customers are choosing where to make their purchases.

In total our businesses contributed £2.9 million to the community during the year through charitable and educational donations and sponsorships. The Boots Recycling Project gathered £1.7 million of surplus goods from all our retail businesses and distributed them throughout the community – this activity extends nationally and internationally. For example, shopfittings were sent from a Boots store to Bosnia to create a desperately needed pharmacy. All stock would otherwise have been consigned to landfill. During the year we made 1,545 donations of recycled stock to charities around the country as well as giving 'tombola bags' to 2,000 community groups to support their fund-raising.

Teams from Boots businesses worked with community partners helping their own personal and professional development, while raising their business profile. The Boots Employee in the Community Award, now in its third year, was won by a Southend-on-Sea employee for voluntary work with her local scouting movement. The Boots Charitable Trust made donations totalling £500,000 to support work in Nottinghamshire on healthcare, economic development, education, and family, maternity and child welfare issues.

**Support for better health** We partner a wide range of health-related charities, involving our stores nationwide in initiatives such as National Pregnancy Week, National Eczema Week, Back Ache Prevention, brittle bone disease awareness, the Sight Savers/ Restore Your Specs Appeal, the Breast Cancer Campaign and Cancer Research Campaign, Sunsafe and the Drugs and Alcohol Awareness Campaign.

To mark the 50th anniversary of the NHS we sponsored the NHS Confederation Conference and seconded staff to health-related projects.

**Support for education** We are committed to the principle of lifelong learning and foster links between educational institutions and the world of work. In addition to work experience for students and teacher placements, the Boots Science Award helps all 100 Nottinghamshire secondary schools to raise standards in science excellence and build positive links between industry and education.

Throughout the year some 250 employees worked with the Success for All programme, helping schoolchildren in a deprived area of Nottingham to improve their reading skills. Over the next three years the Boots Books for Babies project will provide all nine-month old babies in Nottinghamshire with books, nursery and action rhymes, and advice to parents on reading to under-fives. This is a partnership involving Library Services and health visitors.

During the year the chairman opened the Nottingham Trent University Boots Library, a 24-hour facility for students and the business community. Our support for the University of Nottingham's Institute of Pharmaceutical Sciences has enabled it to establish a centre of excellence in the Boots Science Building.

**Promoting safe, caring communities** We have a long tradition of ensuring equal opportunities for all our staff and aim to help create safe, vibrant and thriving communities. During the year BHI supported a project to identify and reduce the barriers that prevent people from fostering children. The Boots Family Learning Project encouraged parental involvement in education through workshops for children and their parents or carers such as grandparents. And we sponsored Operation Respect, a multi-agency strategy led by Nottinghamshire Police to help tackle juvenile crime through a mix of education, diversion, prevention and enforcement.

## Comprehensive report on environmental performance to be published in Autumn 1999

| Key initiatives |
|---|
| BTC transport mileage cut by over 3.6m km |
| BTC fuel costs cut by £450,000 |
| BCM water consumption cut by 3% |
| Nitrogen oxide emissions from energy centre cut by 80% |
| Packaging management saved £600,000 |

Over the past year preparations have continued for the launch of the first Boots annual environmental report. Although the company has prepared internal reports on its environmental performance for some years, this is its first commitment to regular external publication. Preparations have included the development of a set of Key Performance Indicators to provide a consistent basis for tracking performance improvement year on year.

Boots has long recognised that environmental sense and business sense go hand in hand. The company has a long history of environmental management: it built its first combined heat and power plant in Nottingham in 1915, introduced bottle salvage in the 1930s, packaging and office paper recycling in the 1950s and reusable transit boxes also in the 1950s. The company appointed its first senior manager with exclusive responsibility for the environment in 1972.

Today the gap between environmental and business efficiency is closing as governments in the UK and abroad introduce 'polluter pays' measures such as landfill taxes and higher fuel duties. Boots will continue to enhance its environmental performance accordingly, with each business setting its own targets and reporting annual progress against them. Last year we described progress in the use of energy and packaging; this year we focus on transport and water.

**Transport** The efficiency of BTC's distribution operation improved by over 8 per cent (measured as litres of diesel used to distribute a cubic metre of stock). The significant improvement was due to a combination of: improved vehicle routing and utilisation, increased load consolidation, more efficient use of existing and new re-usable transit packaging, and better fuel efficiency. Over 850,000 litres of fuel were saved, equivalent to a reduction in fuel costs of £450,000, with total fleet mileage reduced by over 3.6 million kilometres. Halfords has developed a new cycle distribution centre, eliminating the need for third party warehouse space and reducing delivery fleet journeys by some 1 per cent a year.

In Nottingham the company's Green Commuter Strategy continues to play an important role in citywide attempts to reduce the use of vehicles. Measures include car share schemes, a subsidised bus service, free shuttle buses, an intranet site to help employees plan their routes to reduce the environmental impact of travel and the introduction of a Bicycle User Group.

**Water** After reducing water consumption by 17 per cent in 1997/98, BCM achieved a further 3 per cent saving last year through initiatives such as improvements to cooling tower controls. Further substantial savings are anticipated this year after the completion of a project at the Airdrie factory which separates product in pipes and thereby reduces the need for water flushing during pipe cleaning.

**Other initiatives** Other important environmental initiatives include the installation of improved burners at the headquarters site energy centre. This has cut the amount of nitrogen oxides ($NO_x$) being discharged from the gas turbines by 80 per cent, preventing around 280 tonnes of $NO_x$ from being released into the atmosphere each year.

In 1998, for the first time the company had to meet recycling and recovery targets under UK Packaging Waste Regulations. A proactive management approach to these regulations saved over £600,000 on the cost of compliance.

*The company's first annual environmental report will be published this Autumn. To reserve a free copy, please call free on 0800 0280367. The report will also be published on the company's website.*

The company's governing objective is to maximise the value of the company for the benefit of its shareholders

**Performance measurement** Our governing objective is achieved by investing in our businesses to generate strong cash flows and superior long term returns. We believe that the best overall measure of group performance and hence our success in achieving our objective is total return to shareholders. This is calculated from the movement in the share price and the value of dividends as if reinvested when paid. We monitor our performance on a rolling five year basis against ten peer companies, the results of which are shown in the table below. In a competitive year we have maintained our position at number four in the table although the relative positions of the other peer companies have in some cases altered.

Investment in our businesses is determined, not by sales growth or accounting profits, but by 'economic profit'. This is the present value cash return we expect to make for shareholders after charging an appropriate amount for the capital invested. Currently, this cost of capital for most of the group is 8.5 per cent, after tax and after discounting separately for specific risk. The cost of capital has reduced in recent years in line with long term government bond yields. We also use economic profit for some bonus schemes.

Our share price dropped from 957p at the end of last year to 895p on 31st March 1999, giving a market capitalisation of £8.2 billion. The share price ranged from a high of 1070p to a low of 836p.

Sales and operating profits from continuing operations before exceptional items increased in the year by 5.9 per cent and 4.0 per cent respectively.

The board has proposed a final dividend of 16.7p. This brings the total dividend for the year to 23.8p, an increase of 6.7 per cent over last year.

**Shareholder returns of The Boots Company compared with peer companies**
Returns are calculated using average listed share prices over the three months to 31st March.

| Five years to 31st March 1999 | | % |
|---|---|---|
| 1 | SmithKline Beecham | 382.7 |
| 2 | Tesco | 173.3 |
| 3 | Kingfisher | 158.2 |
| **4** | **Boots** | **117.5** |
| 5 | GUS | 49.8 |
| 6 | Smith & Nephew | 40.3 |
| 7 | W H Smith | 40.1 |
| 8 | Reckitt & Colman | 34.7 |
| 9 | J Sainsbury | 18.4 |
| 10 | Marks & Spencer | 1.1 |
| 11 | Sears | (40.2) |

**Cash flow** The maximisation of cash flow is the key factor in value creation and cash management is one of the key performance measures used by the company to monitor businesses. The following summary of cash flows demonstrates the company's ability consistently to generate a healthy free cash flow which is defined as cash flow available to all the providers of capital.

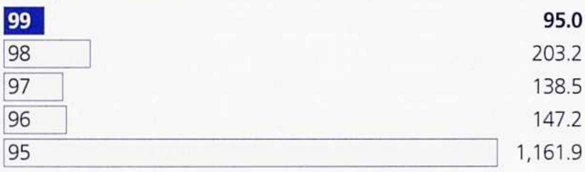
| Summary of cash flows £m | 1999 | 1998 |
|---|---|---|
| Operating cash flow before exceptionals | **616** | 634 |
| Exceptional operating cash flows | **(14)** | (28) |
| Acquisition of businesses | **(9)** | (181) |
| Disposal of businesses | **64** | (9) |
| Purchase of fixed assets | **(372)** | (249) |
| Purchase of own shares | **(160)** | (4) |
| Disposal of fixed assets | **74** | 262 |
| Taxation paid | **(112)** | (233) |
| Other items | **8** | 11 |
| Free cash flow | **95** | 203 |
| Dividends paid | **(207)** | (563) |
| Net interest | **(25)** | (11) |
| Net cash flow (see page 49) | **(137)** | (371) |

The group generated cash from operating activities before exceptionals of £616 million, a decrease of £18 million on last year.

Investment in fixed assets was £123 million ahead of last year reflecting the increased investment in the business, particularly the record level of spend on new stores in BTC. The fixed asset disposal proceeds were down £188 million on last year reflecting the aggressive selling of properties last year.

The following chart shows the amounts of free cash flow generated by the group for each of the last five years.

**Cash generation** £m




The sale of Boots Pharmaceuticals is included in the cash flow for 1995.

**Acquisitions and disposals of businesses** BTC extended its presence in the Republic of Ireland and Northern Ireland with the acquisition of Connors Holdings Ltd, a privately owned retail pharmacy chain, for £17 million.

The group disposed of Do It All to Focus Retail Group Ltd for a consideration of £62.2 million.

**QUEST** During the year, the company established a qualifying employee share ownership trust ('QUEST') in connection with its existing SAYE share scheme, which is open to all UK employees. (The company ceased granting executive options in 1995). The QUEST enables the company to use existing shares to satisfy options, rather than issuing new shares, in a tax-efficient way. The QUEST has bought in the market 16.9 million shares, enough to meet all existing options, at an average price of 909p per share. The cost of these purchases, which is the difference between the option price and the price paid for the shares, was charged this year against profits as an exceptional item. In addition, interest charges have been incurred for funding the shares while they are in the QUEST. However, we could have decided to issue new shares and if so the accounting treatment would have avoided charging costs to the profit and loss account. Perhaps for this reason, most other companies issue new shares.

We believe, however, that using existing shares avoids diluting the value of existing shareholdings and helps produce a more efficient capital structure. In addition it is more transparent as the cost is shown against profits.

£60 million has been charged against profits this year as a result of acquiring shares to cover all existing SAYE options. In future, it will only be necessary to acquire shares to meet new options and the charge should be much lower.

**Treasury policy and controls** Boots has ready access to funds due to its strong credit ratings. Currency exposures are modest. Interest exposure is more substantial.

Treasury focus is primarily on the balance sheet, including those items such as property lease commitments, which are assets and liabilities in a real economic sense but which current accounting convention does not recognise.

Note 19 on page 67 shows further details under the disclosure requirements of Financial Reporting Standard (FRS)13 'Derivatives and Other Financial Instruments: Disclosures'.

Controls Controls seek to prevent fraud and other unauthorised transactions as well as counterparty risk. The effective operation of key controls is reviewed annually by the group's internal audit staff. Strict guidelines for cash investments apply worldwide, with cash held only in high quality bank deposits and commercial paper. Swaps, which the company uses to manage interest rates, are strictly controlled and monitored, with each transaction authorised individually by the group finance director.

Liquidity and funding The company has ready access to funds due to its strong credit ratings from Moody's and Standard and Poor's. These are A1/A+ long term and P1/A1 short term. It is policy to have credit ratings which give good access to the capital markets.

During the year the group signed committed five-year facilities totalling £540 million with nine banks, bringing the total committed lines to £600 million. These facilities remained undrawn during the year, with short term financing needs met by uncommitted facilities.

After the year end the group issued a £300 million ten-year eurobond, which was well received by investors and was swapped to produce a floating rate of funds considerably below the equivalent cost of bank borrowings. Some of the cash raised will refinance short term debt.

Lease liabilities In common with other UK retailers, the group has liabilities through its obligations to pay rents under property leases. The following table shows the capitalised value of the committed after tax rents payable at 31st March 1999, excluding any likely increase in rents at rent reviews, discounted at the group's effective after tax cost of borrowing of 4 per cent (5.7 per cent gross). The continuing fall in long term interest rates during the year has increased the net present value of the lease liabilities.

| Maturity of commitment | Rent commitment at 31st March 1999 £m | Capitalised value £m |
|---|---|---|
| 1 to 10 years | 42.7 | 142 |
| 10 to 20 years | 92.7 | 739 |
| 20 to 30 years | 27.3 | 286 |
| Over 30 years | 6.8 | 100 |
| Total | 169.5 | 1,267 |

The split of rent payable at the year end for businesses is:

| | Rent payable £m | % |
|---|---|---|
| Boots The Chemists | 113.0 | 67 |
| Halfords | 41.8 | 24 |
| Other | 14.7 | 9 |
| Total | 169.5 | 100 |

Interest Policy is to maintain an approximately equal balance between fixed and floating rates, and this is achieved with swaps. We do not, however, hedge against the impact of short term interest rate movements, since this merely reduces earnings volatility and does not increase the value of the company.

Rent commitments on property leases are the economic equivalent of fixed rate debt. The value of lease related interest rate swaps at the year end was £875 million. All of these swaps had an initial maturity of ten years, with an average maturity at 31st March 1999 of about seven years and a weighted average fixed rate receipt of 7.7 per cent.

The company's other fixed rate borrowings have all been fully swapped into floating rate.

Given the overall cash, borrowing and interest rate swap position of the group, each 1 per cent increase or decrease in short term interest rates changes the net interest figure by about £10 million.

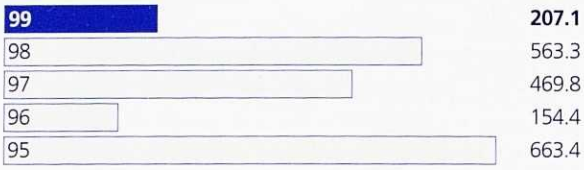
Net interest payable for 1998/99 was £1.8 million, compared with £15.2 million receivable last year.

Currency exposure The company currently has no currency debt to match the value of its overseas businesses. When the cash flows from these businesses become more substantial, policy will be reviewed.

Modest sales and purchases are made in a range of currencies but it is not considered that hedging them into sterling adds value.

Capital structure Since 1994 we have undertaken a series of transactions to help achieve a more efficient capital structure, in line with the policy of delivering shareholder value. It is sensible to finance a proportion of capital requirements with borrowings, especially when the business consistently produces strong cash flows. The last such transaction was a £400 million special dividend, paid in June 1997. Payments to shareholders in the form of dividends and share repurchases over the last five years are shown in the following chart and total over £2 billion.

**Payment to shareholders** £m




1995 and 1997 include share repurchases of £511.3m and £300m respectively. 1998 includes the special dividend of £400.5m.

**Taxation** The effective tax rate, before exceptional items, for the group was 30.3 per cent, the same as last year.

**Pensions** The results of the actuarial valuation, based on market values of liabilities and assets, at 1st April 1998, is shown in note 26. While this shows that accrued liabilities were covered 1.2 times by the market value of assets and that no contributions to the pension fund are currently required, we believe contributions to the fund may be appropriate in the foreseeable future. We have made a charge of £5 million in the year, which has been substantially reduced by the impact of actuarial surpluses from earlier valuations.

**Year 2000** During the year we have made good progress against our plans for achieving Year 2000 compliance. This has involved three strands of activity:

- implementation of changes to business systems to allow correct processing of future dates.
- confirmation that embedded logic units used within our manufacturing, testing and environmental control systems support the Millennium change and, where necessary, replacing them with compliant devices.
- working with our trading partners, both suppliers and customers, to confirm that the supply chain we depend on, and are involved in, continues to operate with minimal disruption.

In addressing our business systems we adopted a combination of modifying existing systems where they continued to meet our requirements and replacing others where there was an opportunity to enhance business process. We have now developed and tested compliant software for our key business processes and the large majority of systems are already in operation. In a couple of instances we are still in the process of implementing systems that provide new functionality and progress is in line with agreed business timescales.

Testing on embedded logic has been undertaken. We have a high degree of confidence that our key suppliers have, or will achieve, compliance and pose no risk of disruption. We will continue to liaise, however, with our supplier base throughout the calendar year to confirm any appropriate contingency actions.

Contingency planning has been an area for consideration across our business units and will be monitored on an ongoing basis. We originally estimated the incremental costs attributable to Year 2000 systems compliance to be in the region of £14 million for the entire programme. The programme has remained largely on schedule and will be completed within these estimates. This investment has been in addition to our pre-existing systems investment plans which have continued in parallel.

Overall we believe that we have taken the appropriate steps to ensure that business operations continue throughout the Millennium change with minimal disruption. It is not possible to guarantee that no unforeseen problems will arise and we will continue to invest management attention to monitor our supplier preparedness and refine and rehearse contingency plans.

**Economic and Monetary Union (EMU)** The company has businesses in nine of the first wave countries and has been preparing for EMU since 1997. Since the introduction of the euro, in January 1999, we have had to handle only a small number of transactions and no difficulties have been experienced.

Our businesses in the first wave countries and in the UK have all analysed the impact of the euro and are well on track to deal with the needs of their customers and suppliers. A cost of around £7 million is being incurred as a consequence of the introduction of the euro in the first wave, the majority of which is still to be incurred. This expenditure includes IT investment that will increase the flexibility of our UK-based purchasing systems in handling foreign currencies.

In the last year we have refined our analysis of the impact on the company, if the UK were to adopt the euro. This process has highlighted the difficulty of accurately planning for the uncertain UK position. We have confirmed that substantial costs will be involved for our retail businesses. The bulk of costs will arise in training staff and changing IT systems. We continue to predict a cost of around 1 per cent of turnover, depending on our assumptions. This is in line with predictions made by many first wave retailers.

The publication of the Government's National Changeover Plan helped to reduce uncertainty. We therefore welcome this as an additional step in defining UK plans. This plan contains a commitment to further planning, and this is also welcome. We believe that further planning is needed to identify the approaches that will minimise costs to the various sectors of the UK economy. In particular we believe that work is needed which focuses on the process for exchanging sterling notes and coins for euros. It is important that all affected parties agree to the roles that might be expected of them in such a process.

**Accounting standards** The company fully supports the objectives of the Accounting Standards Board (ASB) in its aim to improve the quality and consistency of financial statements.

Current UK financial accounting ignores material economic costs and liabilities, particularly in relation to operating leases, pensions and employee share options. The group's internal management accounting seeks to recognise all such economic costs and liabilities and we encourage any move by the ASB to recognise these costs and liabilities properly. We have made robust representations to the ASB on accounting for both pensions and employee share options.

During the year the ASB have issued the following Financial Reporting Standards (FRSs): FRS9 'Associates and Joint Ventures', FRS10 'Goodwill and Intangible Assets', FRS11 'Impairment of Fixed Assets and Goodwill', FRS12 'Provisions, Contingent Liabilities and Contingent Assets', FRS13 'Derivatives and Other Financial Instruments: Disclosures' and FRS14 'Earnings Per Share'. The effects of these have been reflected in this year's accounts and the comparatives restated where necessary as described in the accounting policies on pages 50 to 52.

FRS15 'Tangible Fixed Assets' is effective for accounting periods ending on or after 23rd March 2000. We are currently reviewing the impact of this FRS on the company and will adopt it in next year's accounts.

**David Thompson**
Joint Group Managing Director and Finance Director

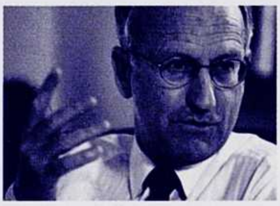
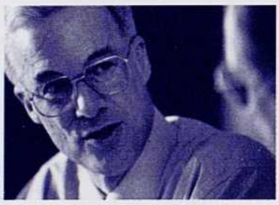
# Board of Directors









**Lord Blyth of Rowington**, 59, chairman. Director since 1987, when he joined Boots as chief executive. He is also non-executive director of NatWest Group and Diageo. Formerly group managing director of Plessey and head of defence sales at the Ministry of Defence.

**David Thompson**, 56, joint group managing director since 1997 and finance director since 1990. He is also a non-executive director of Cadbury Schweppes. He joined Boots in 1966, was appointed finance director of Retail Division in 1980 and group financial controller in 1989. He is a chartered accountant.

**Steve Russell**, 54, joint group managing director since 1997 and managing director of Boots The Chemists since 1995. He is also a non-executive director of Woolwich. He joined Boots in 1967 and was formerly Boots The Chemists director of merchandise and managing director of Do It All.

**John Watson**, 57, managing director, Boots Contract Manufacturing. Director since 1996. He joined Boots in 1967 and was director of personnel, Pharmaceuticals Division, before being appointed to his present position in 1991. He is also chairman of Boots Pensions Limited.

**Mike Ruddell**, 55, personnel director. Director since 1984. He joined Boots in 1966, and has been director responsible for marketing and merchandise in Boots The Chemists and managing director of Boots Properties. He is also a non-executive director of Mansfield Brewery and deputy chairman of Nottingham Trent University.

**Barry Clare**, 46, managing director, Boots Healthcare International. Appointed 1999. He joined Boots in 1991 to lead the creation and development of the international consumer healthcare business, after gaining strategic marketing experience at Procter & Gamble and Diversey Corporation.

***Sir Michael Angus**, 69, deputy chairman. Director since 1994. He is also chairman of Whitbread and of RAC Holdings, deputy chairman of British Airways and a director of NatWest Group. Former chairman of Unilever and president of the CBI.

***Sir Peter Davis**, 57, appointed 1991. Group chief executive of Prudential Corporation, formerly chairman of Reed International and assistant managing director of J Sainsbury. He is also chairman of Business in the Community.

***Fiona Harrison**, 48, appointed 1994. A former director of Coats Viyella and chief executive of its Fashion Retail Division, which operates the Jaeger and Viyella retail chains. She was previously vice-president of Clairol, part of Bristol-Myers Squibb Company.

***Sir Clive Whitmore** GCB CVO, 64, appointed 1994. A non-executive director of Morgan Crucible Company, Racal Electronics and N M Rothschild & Sons. He was formerly permanent secretary at the Ministry of Defence and then at the Home Office.

***Sir Peter Reynolds** CBE, 69, appointed 1986. Former chairman of Ranks Hovis McDougall. Chairman of Pioneer Concrete Holdings and a director of Pioneer International, Avis Europe and Guardian Royal Exchange Assurance.

***Dr John Buchanan**, 55, appointed December 1997. Group chief financial officer and an executive director of BP Amoco plc. Formerly group treasurer and chief executive of BP Finance and chief operating officer and deputy chief executive of BP Chemicals. He is also a member of the Accounting Standards Board.

***John McGrath**, 60, appointed December 1997. Group chief executive of Diageo. He was group chief executive of Grand Metropolitan before GrandMet and Guinness merged in December 1997 to form Diageo. Previously chairman and chief executive of IDV, GrandMet's spirits and wines business. He is also chairman of the Scotch Whisky Association.

*Non-executive director

# Contents

# Corporate Governance

In June 1998, the Stock Exchange published the Principles of Good Governance and Code of Best Practice ('the Combined Code') which embraces the work of the Cadbury, Greenbury and Hampel Committees and became effective in respect of accounting periods ending on or after 31st December 1998.

The board reviewed the company's corporate governance policies and practice in September 1998 in the light of the new requirements introduced by the Combined Code and since then has complied with all the provisions of the code except as follows. The board's policy is that the service contracts of executive directors should be subject to two years' notice of termination by the company although the board remuneration committee is keeping the matter under review. The board's report to shareholders on internal controls relates only to financial controls, pending the outcome of consultation on guidance from the Institute of Chartered Accountants in England and Wales. A change to the Articles of Association so as strictly to comply with the three year rotation requirement for directors will be proposed at the annual general meeting.

**Board Composition**
Details of the board of directors are shown on page 32 and in the directors' report on page 45. There is a chairman, a deputy chairman and five executive directors. In addition, six independent non-executive directors sit on the board, and bring a wide range of skills and experience to the company.

During the year Lord Blyth became chairman and Sir Michael Angus became deputy chairman. There is a clear division of responsibilities at the head of the company, with Sir Michael Angus chairing the board's remuneration and nominations committees and Mr S G Russell and Mr D A R Thompson being joint group managing directors.

The board considers all of its non-executive directors to be independent, Sir Michael Angus being the senior independent director. An independent director is one who has no relationship with any party which may undermine independence and who is not dependent on the company for his or her primary source of income, was not previously a senior manager of the company and does not participate in the company's incentive bonus schemes or pension schemes.

**Conduct of Board Meetings**
The board normally has ten regular meetings in the year plus two further meetings to deal specifically with full year and half year results. Strategy meetings are convened as required. A schedule of powers reserved to the board is maintained comprising key events and decisions.

For all board meetings an agenda is established. For regular meetings this generally comprises reports from the chairman, finance director, business managing directors and the personnel director, major items of strategic expenditure to be approved and other significant policy issues. The board is also notified of any dealings by directors and senior managers in the shares of the company. Written reports are provided to the directors in advance of the board meeting. In addition the board considers at least annually the strategic plans of the group and individual businesses and is provided with other information as requested.

Full year and interim results are reviewed by the board audit committee and approved by the board prior to publication. Other price sensitive announcements may be published under the authority of a director.

In the furtherance of their duties, the directors have full access to the services of the company secretary and may take independent professional advice, at cost to the company, subject to a limit of £25,000 and prior notification to the chairman of the audit committee.

In September 1998 the company introduced a policy of training directors on appointment, if this is their first appointment to a public limited company board. From time to time directors are given the opportunity to receive presentations from management about key areas of the company's operations.

**Board Committees**
There are four principal board committees, all of which operate within written terms of reference. Details of the present composition and the main responsibilities of these committees are as follows:

**Board Nominations Committee**
Sir Michael Angus (chairman)
Lord Blyth of Rowington
Dr J G S Buchanan
Sir Peter Davis
F M Harrison
J B McGrath
Sir Peter Reynolds
Sir Clive Whitmore

The board nominations committee meets as dictated by circumstances and met twice during the year.

The main responsibility of the board nominations committee is to consider and make recommendations to the board about the appointment of directors, the standing for reappointment of directors and the structure and composition of the board generally.

**Board Audit Committee**
Dr J G S Buchanan (chairman)
Sir Peter Davis
F M Harrison
J B McGrath
Sir Peter Reynolds
Sir Clive Whitmore

The board audit committee met three times during the year.

The main responsibilities of the board audit committee are:
- to review and advise the board on the interim and annual financial statements.
- to review with the external auditors the nature and scope of their audit and the results of that audit, any control issues raised by them and management's response.
- to make recommendations as to the appointment and remuneration of the external auditors and any question of their resignation or removal.
- to review the company's systems and practices for the identification and management of risk and to receive an annual report on internal audit matters.
- to monitor compliance with the company's policies to prevent illegal and questionable corporate conduct.

The external auditors are appointed annually at the annual general meeting. The board audit committee considers the reappointment of the auditors and reports its findings to the board. The board audit committee periodically considers the performance, cost and independence of the external auditors, including a comparison of audit fees with those of other retail and FTSE100 companies and a review of the level of service provided by the audit team throughout the group.

The audit firm may perform non-audit work for the group but only when its tender is considered superior to that of other consultants.

**Board Remuneration Committee**
Sir Michael Angus (chairman)
Dr J G S Buchanan
Sir Peter Davis
F M Harrison
J B McGrath
Sir Peter Reynolds
Sir Clive Whitmore

The board remuneration committee met five times during the year.

The committee, having no members who are executive directors or who have personal financial interest in matters to be decided, is responsible to the board for determining the remuneration, terms and conditions and bonus schemes for the executive directors, having regard to performance. A report on the remuneration of directors appears on pages 37 to 41.

**Board Social Responsibilities Committee**
Sir Peter Davis (chairman)
F M Harrison
M F Ruddell
Sir Clive Whitmore

The board social responsibilities committee met once during the year.

The main responsibility of the board social responsibilities committee is to keep under review the company's policies and practices in the areas of social responsibility including those relating to health, safety, the environment, equal opportunities, race relations and employment of the disabled.

**Investor Relations**
Communications with shareholders are given a high priority. A rolling programme of meetings between institutional shareholders and executive directors is held throughout the year, in addition to the annual and half year results presentations and the annual general meeting.

All members of the board usually attend the annual general meeting. A business presentation is given at the meeting, followed by a question and answer session. The notice of the meeting together with any related papers is sent to shareholders at least 20 working days before the meeting. Shareholders are given the opportunity to vote on each separate issue. Postal proxy votes will be counted and summary figures will be announced after the vote on show of hands on each item.

## Internal Control

The directors are responsible for the group's system of internal control. These controls are established in order to safeguard the group's assets, maintain proper accounting records and ensure that financial information used within the business or published is reliable. The directors recognise that any such system can, however, provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Combined Code has introduced a new requirement, that directors' review the effectiveness of the group's system of internal controls. This requirement extends the directors' review to cover all controls including financial, operational, compliance and risk management.

While the board is ultimately responsible for the group's system of internal controls and for monitoring its effectiveness, formal guidance as to the review of non-financial internal control, as required by the Combined Code, has yet to be published. A working party has been established by the Institute of Chartered Accountants in England and Wales which has recently published guidance in a consultative form. The board will seek to ensure that the group follows such guidance when it is finalised. Pending final guidance, the directors have continued to follow existing guidance and have reviewed the effectiveness of the group's internal financial control system during the financial year ended 31st March 1999 in relation to the criteria described in 'Internal control and financial reporting' issued by the Working Group on Internal Control in December 1994.

The company has an established framework of internal financial controls, the key elements of which are as follows:

- Members of the board have responsibility for monitoring the conduct and operations of individual businesses within the group. This includes the review and approval of business strategies and plans and the setting of key business performance targets. The group has a formal and comprehensive process for the determination of business strategies and this process is co-ordinated and monitored by group headquarters. The executive management responsible for each business are accountable for the conduct and performance of their business within the agreed strategies.
- Business plans provide a framework from which performance commitments have been agreed between group headquarters and each business. These commitments incorporate financial and strategic targets against which business performance is monitored. This monitoring includes the examination of and changes to rolling annual and half year forecasts and monthly measurement of actual achievement against key performance targets and plans. These results are consolidated, appraised and communicated to the board.
- The company has clear requirements for the approval and control of expenditure. Strategic investment decisions involving both capital and revenue expenditure are subject to formal detailed appraisal and review according to approval levels set by the board. Significant expenditure of this nature requires approval by a director or the board. Performance reviews are undertaken by the businesses on completion of significant investments. Operating expenditure is controlled within each business with approval levels for such expenditure being determined by the individual businesses.
- There are clear procedures for monitoring the system of internal financial control. The board audit committee meets three times a year and its responsibilities are outlined on page 35. It receives reports from the internal audit function on the results of work carried out under an annual risk focused internal audit plan and from the external auditors. It also requests the attendance of business management, as required, to report on controls relating to specific business activity.

Internal audit also facilitates an annual process whereby businesses provide certified statements of compliance with internal financial controls, which are supported by summaries of key control activities and an assessment of significant business risks, controls and resulting exposures.

On behalf of the board, the audit committee has reviewed the effectiveness of the system of internal financial control.

## Going Concern

Having considered group cash flow forecasts and strategic plans, the directors are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

# Board Remuneration Report

This report has been prepared in compliance with Schedule B of the Combined Code annexed to the Stock Exchange listing rules.

**Remuneration policies**

In determining remuneration policies, the board has followed the provisions set out in Schedule A of the Combined Code annexed to the Stock Exchange listing rules. It is the practice of the board to maintain contact where appropriate with its major shareholders about remuneration issues. Remuneration policies for the executive directors and the senior management team are aligned with the board's governing objective, which is to maximise the value of the company for the benefit of shareholders in terms of total shareholder return represented by share price movement and the value of dividends as if reinvested when paid. Executive bonuses are seen as a means of reinforcing this objective and rewarding executives for their achievement. Responsibilities of the remuneration committee and its membership are set out in the corporate governance statement on page 35.

Remuneration policies are based on the following foundations:

**Pay levels** Executive directors' salaries and non-executive directors' fees are positioned at competitive levels in the light of independent assessment of market practices. Bonus schemes provide an opportunity for executives to receive additional rewards if, and only if, business performance reaches specified objectives and targets.

**Link with business strategy** The way that performance is measured for executive directors flows from, and is consistent with, business strategy and therefore a significant element of an executive director's bonus is tied to generating long term returns for shareholders which compare well with those of other leading companies.

**The role of equity** Share ownership provides an effective way to align the interests of shareholders and executives. Therefore, half of an executive director's long term bonus is payable in shares of the company. The practice of granting executive share options ceased in 1995.

**Directors' remuneration**

Analyses of emoluments, long term bonuses and gains on share options are shown on pages 38 to 40. Details of shareholdings and outstanding share options are shown on page 40 and pension entitlements on page 41.

### Components of emoluments

**Salaries and fees** Salaries of executive directors reflect the scope of, and changes in, their responsibilities and are reviewed annually by the remuneration committee with reference to external comparisons. The board sets the level of remuneration of the non-executive directors by reference to practice in other leading companies.

**Short term executive bonus scheme** This scheme rewards executive directors for achieving operating efficiencies and profitable growth in the relevant year by reference to challenging but achievable forecasts derived at the beginning of the year from strategic plans.

During 1998/99, the performance criterion was profit after tax. A bonus of 10% of base salary was payable for performance at 95% of profit after tax target rising to 25% of salary for performance at target level and to a maximum of 35% when profit after tax was 110% of target. Performance against target during the year was such that no bonus was earned by executive directors.

**Short term profit related bonus schemes** Profit related bonus schemes cover various groups of staff, including executive directors. These schemes are based on performance against either group, or business unit, profit target as appropriate and there is a maximum payment of £6,000 to any individual.

**Other benefits** Staff, including executive directors, who have completed ten years' service are entitled to a long service payment. This is based upon the level of salary and the number of years' service, up to a maximum of £4,000 per annum. Payments under this scheme are being reduced gradually and will cease in the year 2001. Executive directors receive other benefits, including a company car, sick pay and holidays, which overall provide a reasonably competitive package comparable with that provided by other major companies.

### Analysis of individual directors' emoluments

£000

| | Salaries and fees | Short term bonuses | Other benefits | Total 1999 | Total 1998 |
|---|---|---|---|---|---|
| Sir Michael Angus (deputy chairman) | 113 | – | – | 113 | 150 |
| Lord Blyth (chairman and highest paid director) | 600 | 6 | 26 | 632 | 709 |
| Dr J G S Buchanan (from 18th December 1997) | 27 | – | – | 27 | 8 |
| Sir Peter Davis | 27 | – | – | 27 | 27 |
| F M Harrison | 27 | – | – | 27 | 26 |
| J B McGrath (from 18th December 1997) | 27 | – | – | 27 | 8 |
| Sir Peter Reynolds | 27 | – | – | 27 | 27 |
| M F Ruddell | 255 | 6 | 15 | 276 | 337 |
| S G Russell | 350 | 6 | 12 | 368 | 417 |
| D A R Thompson | 350 | 6 | 18 | 374 | 418 |
| J J H Watson | 210 | 4 | 14 | 228 | 263 |
| B E Whalan (to 31st July 1997) | – | – | – | – | 106 |
| Sir Clive Whitmore | 27 | – | – | 27 | 25 |
| R P Wilson (retired on 23rd July 1998) | 8 | – | – | 8 | 27 |
| | 2,048 | 28 | 85 | 2,161 | 2,548 |

**Long term bonus scheme** This scheme provides a direct link between the pay of executive directors and the creation of value for shareholders. Company performance is measured over rolling, four year cycles, in terms of total shareholder return relative to a peer group of ten other leading companies. Transitional performance cycles began on 1st April 1995, a three year performance cycle ended on 31st March 1998 and the first four year cycle ended on 31st March 1999.

During the cycle ended 31st March 1999 the chosen peer group was:

Great Universal Stores
Kingfisher
Marks & Spencer
Reckitt & Colman
J Sainsbury
Sears
Smith & Nephew
SmithKline Beecham
Tesco
W H Smith

The peer group is reviewed before each performance cycle to maintain its relevance.

The amount of bonus depended upon the company's comparative performance against its peer group on the following scale:

| Comparative position in peer group league table | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Bonus % of average annual salary | 90 | 90 | 90 | 65 | 55 | 45 | 35 | 25 | Nil | Nil | Nil |

For the cycles which commenced in April 1997 and April 1998 there will be nil bonus if the position in the above league table is eighth or lower.

Approval for a revision to the long term scheme for the cycle which commenced in April 1999 is being sought at the annual general meeting.

After the end of each performance cycle, one half of any bonus earned is paid in cash. The value of the remaining half is converted into an equivalent number of shares in the company in respect of which the executive director will have conditional rights. The number of shares is calculated by dividing half of the value of the long term bonus by the quotation for a share as derived from the official daily list of the London Stock Exchange on the date for payment of the cash proportion (in 1999, being 21st June). The executive director will normally become entitled to receive those shares only after remaining employed for a further three years. If a director leaves the company during the three year period (except in the case of normal retirement, disability or death), his conditional entitlement to those shares will lapse.

In respect of the four year period to 31st March 1999, the company achieved position four in the league table referred to above. Accordingly the long term bonus amounts earned in respect of that period by executive directors, including amounts relating to periods of service before appointment to the board, were as follows:

| £000 | **Cash** | **Value of vested shares** | **Total 1999** | Total 1998 |
|---|---|---|---|---|
| Lord Blyth | **170** | – | **170** | 162 |
| M F Ruddell | **74** | – | **74** | 71 |
| S G Russell | **87** | – | **87** | 77 |
| D A R Thompson | **93** | – | **93** | 87 |
| J J H Watson | **49** | – | **49** | 30 |
| B E Whalan (to 31st July 1997) | – | – | – | 94 |
| | **473** | – | **473** | 521 |

Each executive director will also be awarded conditional rights to receive ordinary shares in the company having a market value on 21st June 1999 equivalent to the cash bonus shown above. The director will normally become entitled to receive those shares in June 2002 if the conditions are satisfied. No shares vested during the year.

Details of the numbers of shares which have been conditionally awarded during the year under the long term bonus scheme for the cycle which was completed at the end of the previous financial year and the cumulative conditional entitlement are shown below:

| | **Conditional entitlement 1999** | Conditional entitlement 1998 | Cumulative total |
|---|---|---|---|
| Lord Blyth | **15,956** | 22,263 | 38,219 |
| M F Ruddell | **6,991** | 9,525 | 16,516 |
| S G Russell | **7,652** | 9,570 | 17,222 |
| D A R Thompson | **8,538** | 11,475 | 20,013 |
| J J H Watson | **4,242** | 4,876 | 9,118 |
| | **43,379** | 57,709 | 101,088 |

## Gain on share options

Details of executive and SAYE share options are shown below. Gains on share options represent the number of shares under options which have been exercised, valued at the difference between the market price at the date of exercise and the exercise price paid.

Details of gains on share options exercised during the year are as follows:

| | Exercise price | Number of shares | Market price at date of exercise | Gain 1999 £000 | Gain 1998 £000 |
|---|---|---|---|---|---|
| Lord Blyth | **350p** | **1,971** | **1031p** | **13** | 735 |
| M F Ruddell | | | | **–** | 375 |
| S G Russell | | | | **–** | 260 |
| D A R Thompson | | | | **–** | 349 |
| J J H Watson | | | | **–** | 256 |
| B E Whalan | | | | **–** | 115 |
| Total | | | | **13** | 2,090 |

## Directors' shareholdings and share options

The beneficial interests of the directors in office at 31st March 1999 and their families in the share capital of the company at 31st March 1999 are shown below. The company's register of directors' interests, which is open to inspection, contains full details of directors' interests in the company's shares.

| **Shareholdings** | Ordinary shares 1999 | Ordinary shares 1998 |
|---|---|---|
| Sir Michael Angus | **3,348** | 3,348 |
| Lord Blyth | **292,338** | 288,075 |
| Dr J G S Buchanan | **1,000** | – |
| Sir Peter Davis | **3,256** | 3,256 |
| F M Harrison | **3,061** | 1,061 |
| J B McGrath | **2,519** | – |
| Sir Peter Reynolds | **3,609** | 3,609 |
| M F Ruddell | **52,382** | 52,209 |
| S G Russell | **46,434** | 46,417 |
| D A R Thompson | **79,123** | 79,081 |
| J J H Watson | **52,393** | 55,193 |
| Sir Clive Whitmore | **1,592** | 1,592 |

In addition, Sir Peter Reynolds has a non-beneficial interest in 1,300 (1998 1,300) ordinary shares. Each executive director was also deemed, as a potential beneficiary, to have an interest in the 1,641,829 ordinary shares of the company held by the Boots ESOP Trust Ltd, on behalf of The Boots Employee Trust, established to facilitate the operation of the company's executive bonus schemes and 16,862,912 ordinary shares of the company held by the Boots (QUEST) Trustee Limited, on behalf of The Boots Qualifying Employee Share Trust, established in connection with the company's UK all-employee SAYE Share Option Scheme. No director holds any loan capital. Directors' personal shareholdings on 2nd June 1999 remain unchanged, but the number of shares held by Boots (QUEST) Trustee Limited has reduced, thereby reducing directors' deemed interest.

## Share Options

An analysis of the number of outstanding directors' share options at each exercise price is as follows:

| **Under SAYE scheme** | 410p | 421p | 485p | 588p | 808p | 1999 Total | 1998 Total |
|---|---|---|---|---|---|---|---|
| Lord Blyth | **841** | **–** | **–** | **–** | **853** | **1,694** | 2,812 |
| M F Ruddell | **841** | **–** | **–** | **663** | **482** | **1,986** | 1,504 |
| S G Russell | **–** | **4,097** | **–** | **–** | **–** | **4,097** | 4,097 |
| D A R Thompson | **–** | **–** | **1,422** | **1,760** | **–** | **3,182** | 3,182 |
| J J H Watson | **–** | **–** | **3,556** | **–** | **–** | **3,556** | 3,556 |

During the year SAYE options in respect of 482 shares were granted to Mr M F Ruddell, Lord Blyth exercised SAYE options in respect of 1,971 shares and SAYE options on a further 853 shares were granted to him.

No executive options are held by directors.

Information on the company's SAYE share option scheme, including dates from when options are exercisable and expiry dates, is shown in note 22. The market price of the company's shares at 31st March 1999 was 895p and the range of market prices during the year was 836p to 1070p.

Directors' interests in share options on 2nd June 1999 remain unchanged.

## Pension entitlement

All executive directors in office at 31st March 1999 receive pension entitlements from the company's principal UK defined benefit pension scheme, referred to in note 26, and supplementary pension arrangements which provide additional benefits aimed at producing a pension of two-thirds final base salary at normal retirement age. Executive directors are members of the pension scheme and non-executive directors do not participate. There are no money purchase schemes. Pension entitlement is calculated only on the salary element of remuneration. The chairman is entitled to the same level of pension benefits enjoyed by other executive directors despite his shorter service but after adjusting for pensions arising from earlier employment.

Details of pensions earned by the executive directors in office at 31st March 1999 are shown below:

| | Age at 31st March 1999 | Directors' contributions during the year £000 | Increase in accrued pension entitlement during the year £000 | Total accrued pension entitlement at 31st March 1999 £000 |
|---|---|---|---|---|
| Lord Blyth (chairman and highest paid director) | 58 | 29 | 44 | 330 |
| M F Ruddell | 55 | 12 | 9 | 147 |
| S G Russell | 54 | 17 | 28 | 191 |
| D A R Thompson | 56 | 17 | 31 | 208 |
| J J H Watson | 57 | 10 | 16 | 128 |

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. No account is taken of any retained benefits from previous employments which will act to reduce the benefits shown. The increase in accrued pension during the year excludes any increase for inflation. Members of the scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table.

The normal retirement age is 60. Early retirement is available subject to Trustee consent and a reduction in the accrued pension. Under the current early retirement terms the pension can be drawn from age 59 without reduction.

On death after retirement spouses' pensions of two-thirds of members' pensions and children's pensions of two-ninths of members' pensions for up to three dependent children are payable (subject to Inland Revenue limits).

Pensions in payment are guaranteed to be increased annually by 5% or the increase in the Index of Retail Prices (RPI) if less. Additional increases may be granted at the discretion of the Trustees and subject to the consent of the company.

Any transfer value calculations would make allowance for discretionary benefits including pension increases and early retirement.

## Contracts of service

Sir Michael Angus retired as chairman at the conclusion of the annual general meeting on 23rd July 1998 and became deputy chairman. Lord Blyth succeeded him as chairman.

The chairman has a fixed term service contract with the company which expires at normal retirement age, 60, on 8th May 2000. The chairman is standing for reappointment at the annual general meeting. None of the non-executive directors has a service contract, including Sir Peter Davis who is standing for reappointment as a director at the annual general meeting.

Each executive director has a service contract which is terminable by the company on two years' notice including Mr D A R Thompson, Mr S G Russell and Mr B Clare (appointed on 1st April 1999) who are standing for reappointment at the annual general meeting. All such contracts terminate when the director in question reaches the age of 60. The remuneration committee considers that it is appropriate for executive directors to have a service contract on such terms having regard to their seniority and value to the company and the generally prevailing practice among comparable companies. If any service contract were to be terminated by the company giving less than the contractual period of notice, the requirement for the director to mitigate his loss would be taken into account in determining any resulting compensation.

It is recognised that directors may be invited to become non-executive directors of other companies and that the additional experience and knowledge that this brings will benefit the company. Accordingly, the policy is to allow executive directors to accept up to two such appointments where no conflict of interest arises and to retain the fees received.

# Directors' Responsibilities Statement

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the profit or loss for the financial year and of the state of affairs of the company and the group at the end of that period. The directors are of the opinion that suitable accounting policies have been used and applied consistently, applicable accounting standards have been followed, and reasonable and prudent judgements and estimates have been made. The financial statements have been prepared on a going concern basis. The directors have a responsibility to ensure that the company and its subsidiaries have suitable internal controls for maintaining adequate accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibilities for taking such steps that are reasonably open to them for safeguarding the assets of the group, and for preventing and detecting fraud and other irregularities.

# Auditors' Report

**Report of the Auditors to the members of The Boots Company PLC**
We have audited the financial statements on pages 46 to 75.

**Respective responsibilities of directors and auditors** The directors are responsible for preparing the Annual Report, including as described on page 42, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanation we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the statement on pages 34 to 36 reflects the company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

**Basis of opinion** We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion** In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31st March 1999 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**KPMG Audit Plc**
Chartered Accountants
Registered Auditor
Birmingham
2nd June 1999

# Directors' Report

The directors of The Boots Company PLC present their annual report to shareholders, together with the audited financial statements for the year ended 31st March 1999.

**Principal activities**
The group's principal activities during the year were:
- retailing of chemists' merchandise and autoparts.
- the provision of opticians' services.
- the development, manufacture and marketing of healthcare and consumer products.
- property investment, development and management.

Further information on the group's continuing activities is provided on page 1.

**Business review and future developments**
A review of group activities during the year, research and development, and likely future developments are dealt with in the Chairman's Statement, Investment Review and Operational Review on pages 2 to 25.

**Group results**
The group profit and loss account for 1999 shown on page 46 includes the following details:

| | 1999 £m | 1998 £m |
|---|---|---|
| Turnover | **5,044.6** | 5,021.9 |
| Profit on ordinary activities before exceptional items and taxation | **560.6** | 553.2 |
| Profit on ordinary activities before taxation | **170.3** | 431.9 |

**Appropriations**
The directors recommend the payment of a final dividend of 16.7p per share which, if approved by shareholders, will be paid on 20th August 1999 to shareholders registered on 18th June 1999. When added to the interim dividend of 7.1p paid on 5th February 1999, this makes a total dividend payment for the year of 23.8p per share (1998 22.3p per share). Payment of these dividends requires £214.5m (1998 £203.4m), leaving a loss of £190.6m (1998 profit £60.6m) retained in the business.

**Group structure**
On 7th April 1998, Boots The Chemists acquired Connors Holdings Ltd, a privately owned retail pharmacy chain with stores in Northern Ireland, the Republic of Ireland, England and Wales.

On 28th July 1998, The Boots Company PLC formed a joint venture with Mitsubishi Corporation to open Boots Health and Beauty stores in Japan.

On 19th August 1998, the group disposed of Do It All to Focus Retail Group Ltd.

On 9th September 1998, Boots The Chemists acquired a dental body corporate, Wilsons Dentistry Limited (now called Boots Dentalcare Limited) to enable the company to explore opportunities in the corporate dentistry market.

On 23rd September 1998, it was announced that a company was being set up in conjunction with Nicholas Piramal India Limited to focus upon Boots Healthcare International's existing core product categories of analgesics, cough and cold and dermatological skincare.

**Share capital**
Details of changes in the share capital are shown in note 22 to the financial statements on page 71.

At the annual general meeting on 23rd July 1998, shareholders authorised the company to make market purchases of its own ordinary shares of 25p each. No such purchases were made during the year. During the year The Boots Qualifying Employee Share Trust purchased 16.9m shares with a nominal value of £4.2m.

At the forthcoming annual general meeting on 22nd July 1999, shareholders will be invited to renew the company's authority to make market purchases. The authority will be limited to the purchase of not more than 91.5m ordinary shares, being approximately 10% of the ordinary shares in issue at the date of this report; the maximum price payable to be 105% of the average of the closing mid market quotations for the five business days before the purchase, with the minimum price being the nominal value, exclusive of any expenses payable by the company.

**Shareholders**
As at 31st May 1999 the register maintained by the company under Section 211 of the Companies Act 1985 contains a notification to the company that the Prudential Corporation group of companies holds 3.3% of the issued ordinary share capital of the company.

### Fixed assets
The directors are of the opinion that the market value of the group's properties at 31st March 1999 was not materially different from that stated in the financial statements.

### Payment of suppliers
The group is a signatory of the Confederation of British Industry's Prompt Payment Code. It is the policy of the company to agree appropriate terms and conditions for its transactions with suppliers (by means ranging from standard written terms to individually negotiated contracts) and that payment should be made in accordance with those terms and conditions, provided that the supplier has also complied with them.

The number of days' company purchases outstanding at 31st March 1999 was 27 (1998 26).

### Staff
The company continues to involve staff in the decision-making process and communicates regularly with them during the year. Their involvement in the company's performance is encouraged with employee bonus and share schemes. The involvement extends to the board of Boots Pensions Ltd, on which there are three employee representatives as well as a retired employee. The company's aim for all members of staff and applicants for employment is to fit the qualifications, aptitude and ability of each individual to the appropriate job, and to provide equal opportunity, regardless of sex, religion or ethnic origin. The company does all that is practicable to meet its responsibility towards the employment and training of disabled people. Where an employee becomes disabled, every effort is made to provide continuity of employment in the same job or a suitable alternative.

### Charitable and political donations
During the year the company was a sponsor of the Labour Party Women's Conference held in Nottingham for the sum of £20,000 which provided the opportunity to promote the company's businesses to delegates in its home town.

Donations for charitable and educational purposes in the UK for the year were £2.9m (1998 £2.7m). Further information on community relations is shown on page 26.

### Directors
Details of directors in office on 31st March 1999 are shown on page 32. Mr R P Wilson was a director until his retirement from the board on 23rd July 1998.

Lord Blyth, Sir Peter Davis, Mr S G Russell and Mr D A R Thompson retire by rotation at the annual general meeting in accordance with Article 87 and offer themselves for reappointment.

Mr B Clare who was appointed as a director on 1st April 1999 retires at the annual general meeting in accordance with Article 86 and offers himself for reappointment.

Information on service contracts and details of the interests of the directors and their families in the share capital of the company at 31st March 1999 are shown in the Board Remuneration Report on pages 37 and 41.

### Auditors
A resolution to reappoint KPMG Audit Plc as auditors and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

By order of the board
2nd June 1999
**I A Hawtin**
Secretary

# Group Profit and Loss Account

For the year ended 31st March 1999

| | Notes | Before exceptional items 1999 £m | Exceptional items (note 3) 1999 £m | Total 1999 £m | Before exceptional items 1998 £m | Exceptional items (note 3) 1998 £m | Total 1998 £m |
|---|---|---|---|---|---|---|---|
| **Turnover** | | | | | | | |
| Continuing operations – excluding acquisitions | | **4,894.7** | **–** | **4,894.7** | 4,638.4 | – | 4,638.4 |
| – acquisitions | | **17.7** | **–** | **17.7** | – | – | – |
| Turnover from continuing operations | | **4,912.4** | **–** | **4,912.4** | 4,638.4 | – | 4,638.4 |
| Discontinued operations | | **132.2** | **–** | **132.2** | 383.5 | – | 383.5 |
| Total turnover | 1 | **5,044.6** | **–** | **5,044.6** | 5,021.9 | – | 5,021.9 |
| **Operating profit** | | | | | | | |
| Continuing operations – excluding acquisitions | | **563.1** | **(69.4)** | **493.7** | 539.7 | 5.5 | 545.2 |
| – acquisitions | | **(1.7)** | **(6.9)** | **(8.6)** | – | – | – |
| Operating profit from continuing operations | | **561.4** | **(76.3)** | **485.1** | 539.7 | 5.5 | 545.2 |
| Discontinued operations | | **2.7** | **–** | **2.7** | (1.7) | – | (1.7) |
| Group operating profit | | **564.1** | **(76.3)** | **487.8** | 538.0 | 5.5 | 543.5 |
| Share of operating loss of joint venture | | **(1.7)** | **–** | **(1.7)** | – | – | – |
| Total operating profit including joint venture | 1,2 | **562.4** | **(76.3)** | **486.1** | 538.0 | 5.5 | 543.5 |
| **Profit on disposal of fixed assets** | 3 | | | | | | |
| Continuing operations | | **–** | **4.6** | **4.6** | – | 43.1 | 43.1 |
| Discontinued operations | | **–** | **0.3** | **0.3** | – | 4.0 | 4.0 |
| **Loss on disposal of businesses** | 4 | | | | | | |
| Discontinued operations | | **–** | **(318.9)** | **(318.9)** | – | (173.9) | (173.9) |
| **Profit on ordinary activities before interest** | | **562.4** | **(390.3)** | **172.1** | 538.0 | (121.3) | 416.7 |
| Net interest | 5 | **(1.8)** | **–** | **(1.8)** | 15.2 | – | 15.2 |
| **Profit on ordinary activities before taxation** | | **560.6** | **(390.3)** | **170.3** | 553.2 | (121.3) | 431.9 |
| Tax on profit on ordinary activities | 6 | **(169.9)** | **23.6** | **(146.3)** | (167.2) | (2.0) | (169.2) |
| **Profit on ordinary activities after taxation** | | **390.7** | **(366.7)** | **24.0** | 386.0 | (123.3) | 262.7 |
| Equity minority interests | | **(0.1)** | **–** | **(0.1)** | 1.3 | – | 1.3 |
| **Profit for the financial year attributable to shareholders** | 7 | **390.6** | **(366.7)** | **23.9** | 387.3 | (123.3) | 264.0 |
| **Dividends** | 8 | | | **(214.5)** | | | (203.4) |
| **(Loss)/profit retained** | | | | **(190.6)** | | | 60.6 |
| **Basic earnings per share** | 9 | **42.9p** | **(40.3)p** | **2.6p** | 42.6p | (13.6)p | 29.0p |
| **Fully diluted earnings per share** | 9 | **42.5p** | **(39.9)p** | **2.6p** | 42.2p | (13.4)p | 28.8p |

# Other Primary Statements of the Group

For the year ended 31st March 1999

| Statement of Total Recognised Gains and Losses | 1999 £m | 1998 £m |
|---|---|---|
| **Profit for the financial year attributable to shareholders** | **23.9** | 264.0 |
| Deficit on revaluation of properties | **(1.4)** | (1.4) |
| Impairment losses on revalued assets | **(1.7)** | – |
| Currency translation differences on foreign currency net investments | **3.0** | (13.7) |
| Other gains and losses | **0.4** | – |
| **Total recognised gains and losses for the year** | **24.2** | 248.9 |
| Prior period adjustment (see note 20) | **12.0** | |
| **Total gains and losses recognised since last annual report** | **36.2** | |

Currency translation differences are shown net of tax of £(0.1)m (1998 £1.3m).

| Note on Historical Cost Profits and Losses | 1999 £m | 1998 £m |
|---|---|---|
| **Reported profit on ordinary activities before taxation** | **170.3** | 431.9 |
| Realisation of property revaluation surpluses | **7.2** | 64.4 |
| Difference between historical cost depreciation charge and actual charge for the year calculated on revalued amounts | **1.3** | 0.2 |
| **Historical cost profit on ordinary activities before taxation** | **178.8** | 496.5 |
| **Historical cost (loss)/profit retained** | **(182.1)** | 125.2 |

| Reconciliation of Movements in Shareholders' Funds | 1999 £m | 1998* £m |
|---|---|---|
| **Total recognised gains and losses for the year** | **24.2** | 248.9 |
| Dividends | **(214.5)** | (203.4) |
| New share capital issued (net of expenses) | **8.8** | 11.8 |
| Goodwill relating to acquisitions prior to 1st April 1998 | **(1.4)** | (189.3) |
| Goodwill released on disposal of businesses | **312.2** | 121.5 |
| Scrip dividends | – | 27.8 |
| **Net increase in shareholders' funds** | **129.3** | 17.3 |
| Opening shareholders' funds | **1,650.9** | 1,633.6 |
| **Closing shareholders' funds** | **1,780.2** | 1,650.9 |

*Restated as explained in note 20.

# Balance Sheets

31st March 1999

| | | Notes | Group 1999 £m | Group 1998* £m | Parent 1999 £m | Parent 1998* £m |
|---|---|---|---|---|---|---|
| **Fixed assets** | | | | | | |
| Intangible assets | | 10 | **64.4** | 29.3 | **2.8** | 3.0 |
| Tangible assets | | 11 | **1,788.6** | 1,664.9 | **620.9** | 609.2 |
| Investment in joint venture | – share of gross assets | | **7.1** | – | | |
| | – share of gross liabilities | | **(0.9)** | – | | |
| | | 12 | **6.2** | – | **6.5** | – |
| Other investments | | 12 | **106.2** | 2.6 | **1,717.4** | 1,619.4 |
| | | | **1,965.4** | 1,696.8 | **2,347.6** | 2,231.6 |
| **Current assets** | | | | | | |
| Stocks | | 13 | **722.0** | 709.3 | **200.1** | 194.8 |
| Debtors falling due within one year | | 14 | **388.1** | 386.9 | **363.7** | 2,287.1 |
| Debtors falling due after more than one year | | 14 | **14.1** | 58.7 | **273.2** | 415.4 |
| Current asset investments and deposits | | 15 | **105.8** | 228.7 | **77.3** | 205.5 |
| Cash at bank and in hand | | | **32.2** | 35.6 | **10.6** | 0.1 |
| | | | **1,262.2** | 1,419.2 | **924.9** | 3,102.9 |
| **Creditors:** Amounts falling due within one year | | 16 | **(1,191.0)** | (1,155.0) | **(985.9)** | (1,916.3) |
| **Net current assets** | | | **71.2** | 264.2 | **(61.0)** | 1,186.6 |
| **Total assets less current liabilities** | | | **2,036.6** | 1,961.0 | **2,286.6** | 3,418.2 |
| **Creditors:** Amounts falling due after more than one year | | 17 | **(230.7)** | (258.6) | **(513.6)** | (1,508.9) |
| **Provisions for liabilities and charges** | | 20 | **(25.3)** | (51.5) | **(4.8)** | (8.6) |
| **Net assets** | | | **1,780.6** | 1,650.9 | **1,768.2** | 1,900.7 |
| **Capital and reserves** | | | | | | |
| Called up share capital | | 21, 22 | **228.8** | 228.2 | **228.8** | 228.2 |
| Share premium account | | 21 | **252.0** | 243.8 | **252.0** | 243.8 |
| Revaluation reserve | | 21 | **276.2** | 286.1 | **–** | – |
| Capital redemption reserve | | 21 | **36.8** | 36.8 | **36.8** | 36.8 |
| Profit and loss account | | 21 | **986.4** | 856.0 | **1,250.6** | 1,391.9 |
| **Equity shareholders' funds** | | | **1,780.2** | 1,650.9 | **1,768.2** | 1,900.7 |
| **Equity minority interests** | | | **0.4** | – | **–** | – |
| | | | **1,780.6** | 1,650.9 | **1,768.2** | 1,900.7 |

*Restated as explained in note 20.

The financial statements were approved by the board of directors on 2nd June 1999 and are signed on its behalf by:

**Lord Blyth of Rowington**
Chairman

**David Thompson**
Joint Group Managing Director and Finance Director

# Group Cash Flow Information

For the year ended 31st March 1999

| **Reconciliation of operating profit to operating cash flows** | Notes | **1999 £m** | 1998 £m |
|---|---|---|---|
| Group operating profit before exceptional items | | **564.1** | 538.0 |
| Depreciation and amortisation of fixed assets | | **140.1** | 122.1 |
| Loss on disposal of fixed assets, excluding properties | | **6.8** | 4.1 |
| Increase in stocks, including property development stock | | **(78.3)** | (53.1) |
| Increase in debtors | | **(55.3)** | (30.1) |
| Increase in creditors | | **39.6** | 54.0 |
| Other non-cash movements | | **(0.6)** | (1.5) |
| Net cash inflow before expenditure relating to exceptional items | | **616.4** | 633.5 |
| Exceptional operating cash flows | 23 | **(14.5)** | (27.9) |
| **Cash inflow from operating activities** | | **601.9** | 605.6 |

The cash inflow from operating activities includes £0.4m (1998 outflow £12.1m) relating to discontinued operations.

| **Group cash flow statement** | Notes | **1999 £m** | 1998 £m |
|---|---|---|---|
| **Cash inflow from operating activities** | | **601.9** | 605.6 |
| **Returns on investment and servicing of finance** | 23 | **(24.9)** | (10.5) |
| **Taxation** | | **(112.4)** | (232.8) |
| **Capital expenditure and financial investment** | 23 | **(458.5)** | 9.1 |
| **Acquisitions and disposals** | 4 | **55.2** | (190.4) |
| **Equity dividends paid** | | **(207.1)** | (563.3) |
| **Cash outflow before use of liquid resources and financing** | | **(145.8)** | (382.3) |
| **Management of liquid resources** | 23 | **122.8** | 371.9 |
| **Financing** | 23 | **28.2** | (8.8) |
| **Increase/(decrease) in cash** | | **5.2** | (19.2) |

Cash is defined as cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

| **Reconciliation of net cash flow to movement in net (debt)/funds** | Notes | **1999 £m** | 1998 £m |
|---|---|---|---|
| **Increase/(decrease) in cash** | | **5.2** | (19.2) |
| Cash inflow from decrease in liquid resources | 24 | **(122.8)** | (371.9) |
| Cash (inflow)/outflow from change in borrowings and lease financing | 24 | **(19.4)** | 20.5 |
| **Movement in net (debt)/funds resulting from cash flows** | | **(137.0)** | (370.6) |
| Investments and borrowings of businesses disposed/acquired | | **–** | 0.4 |
| Loan notes issued as settlement for acquisition | | **(16.8)** | (11.3) |
| Finance lease additions | | **(6.7)** | (10.4) |
| Increase in value of investment in 10.125% bond 2017 | | **16.5** | 15.1 |
| Currency and other non-cash adjustments | | **(1.4)** | (2.1) |
| **Movement in net (debt)/funds during the year** | | **(145.4)** | (378.9) |
| Opening net (debt)/funds | | **(149.4)** | 229.5 |
| **Closing net debt** | 24 | **(294.8)** | (149.4) |

Net (debt)/funds comprises cash, liquid resources, finance leases and all other borrowings.

# Accounting Policies

The following accounting policies have been used in dealing with items which are considered material in relation to the group and parent company financial statements.

**Basis of accounting**

The financial statements have been prepared in accordance with applicable accounting standards and under alternative accounting rules set out in Schedule 4 to the Companies Act 1985, being prepared under the historical cost convention adjusted by the revaluations of certain properties. However, compliance with SSAP19 'Accounting for investment properties' requires a departure from the requirements of the Companies Act 1985 relating to the depreciation of investment properties as described in note 11 to the financial statements on page 61.

A separate profit and loss account for the parent company has not been presented as permitted by section 230 of the Companies Act 1985.

During the year a number of new Financial Reporting Standards (FRSs) have been issued by the Accounting Standards Board and become effective for this year's Report and Accounts. The effects of FRS9 'Associates and Joint Ventures', FRS10 'Goodwill and Intangible Assets', FRS11 'Impairment of Fixed Assets and Goodwill', FRS12 'Provisions, Contingent Liabilities and Contingent Assets', FRS13 'Derivatives and Other Financial Instruments: Disclosures' and FRS14 'Earnings Per Share', have been adopted in this year's accounts and the comparatives restated where necessary as described below.

The implementation of FRS12 'Provisions, Contingent Liabilities and Contingent Assets' has required a release of provisions previously created that relate to the disposal of businesses which would not have been recognised under FRS12 and prior period adjustments have, therefore, been made. The effect on the balance sheet at 31st March 1998 is to reduce provisions for liabilities and charges and increase reserves for the group by £12.0m (parent £3.9m). There is no impact on the profit and loss account for either the current year or the year ended 31st March 1998. Details are shown in note 20 to the financial statements on page 69.

**Consolidation**

The group financial statements combine the results of the parent undertaking and all its subsidiaries, and associated undertakings and joint ventures, to the extent of group ownership and after eliminating intra-group transactions.

The results of businesses acquired or disposed of are consolidated from or to the effective dates of acquisition or disposal.

Associated undertakings and joint ventures are those undertakings, not recognised as subsidiaries, in which the group has a participating interest, over whose policies the group is able to exercise a significant degree of influence and/or, in the case of joint ventures, are jointly controlled. The group's share of the results of associated undertakings and joint ventures, which are accounted for under the equity method and gross equity method respectively, is included in the profit and loss account and its share of their net assets excluding goodwill is included in investments in the group balance sheet.

In the parent company balance sheet, investments in subsidiary, associated undertakings and joint ventures are stated at cost less provision for permanent diminution in value.

**Foreign currencies**

The results and cash flows of overseas subsidiaries are translated into sterling on an average exchange rate basis, weighted by the actual results of each month. Assets and liabilities including currency swaps are translated into sterling at the rates of exchange ruling at the balance sheet date.

Exchange differences arising from the translation of the results and net assets of overseas subsidiaries, less offsetting exchange differences on foreign currency borrowings and currency swaps hedging those assets (net of any related tax effects), are dealt with through reserves.

All other exchange differences are dealt with in the profit and loss account.

The cost of the parent company investment in shares in overseas subsidiaries is stated at the rate of exchange in force at the date each investment was made.

## Goodwill and intangible assets

Goodwill on acquisitions comprises the excess of the cost of investment in subsidiary undertakings, associated undertakings and joint ventures over the fair value of net assets acquired. Fair values are attributed to the identifiable assets and liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are also made to bring the accounting policies of acquired businesses into alignment with those of the group. The costs of integrating and reorganising acquired businesses are charged to the post-acquisition profit and loss account.

Goodwill arising on acquisitions prior to 1st April 1998 has been set off against reserves. On disposal of such businesses, any goodwill previously set off against reserves is charged in the calculation of the profit or loss on disposal. For subsequent acquisitions goodwill is recognised within fixed assets in the year in which it arises and amortised on a straight line basis over its useful economic life, generally not exceeding 20 years.

The cost of intangible assets acquired, which are capitalised only if separately identifiable, is amortised over estimated useful lives generally up to a maximum of 20 years. Similar assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred. The carrying value of intangible assets (including in particular those being amortised over periods greater than 20 years) is reviewed annually and any impairment in value charged to the profit and loss account.

## Tangible fixed assets and depreciation

No depreciation is provided on freehold land, investment properties, shop freeholds and shop long leaseholds with more than 50 years to run, nor on assets in the course of construction. In the opinion of the directors, shop properties are maintained to such a standard by a programme of repair and refurbishment that the estimated residual values of these properties, based on the prices prevailing at the time of acquisition or subsequent revaluation, are sufficiently high to make any depreciation charge unnecessary.

Any impairment in the value of such fixed assets is charged to the profit and loss account as it arises.

The cost less residual value of other tangible fixed assets is written off by equal instalments over their expected useful lives as follows:
Freehold buildings, other than shops – 40 to 66 years
Computer equipment – 3 to 8 years
Motor cars – 4 or 5 years
Other motor vehicles – 3 to 10 years
Fixtures and plant – 5 to 20 years
Shop leasehold properties – Remaining period of lease when less than 50 years
Other leasehold properties – Remaining period of lease

Investment properties are revalued annually and included in the balance sheet at their existing use value.

To qualify as an investment property, over 50% of rental income from the property must derive from non-group tenants.

Profits and losses arising from the disposal of properties which have previously been revalued are calculated by reference to their carrying value.

## Derivative financial instruments

The group holds derivative financial instruments to manage the interest risk of long term liabilities (including leases). Amounts payable or receivable in respect of interest rate derivatives are recognised on an accruals basis over the life of the instrument.

Short term debtors and creditors that meet the definitions of a financial asset or liability respectively have been excluded from the FRS13 numerical disclosures as permitted by the standard, as detailed in note 19 to the financial statements on page 67.

## Turnover

Turnover comprises sales to external customers (excluding VAT and other sales taxes) and rental income.

## Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels.

**Research and development**

Expenditure on research and development, other than on buildings and plant, is charged against profit in the year in which it is incurred.

**Pension funding**

The company and its UK subsidiaries operate pension schemes under which contributions by employees and by the companies are held in trust funds separated from the companies' finances. Actuarial valuations of the schemes are conducted at three year intervals and include a review of contributions.

The cost of providing pensions is spread over the employees' working lives with the companies. The cost charged to the profit and loss account in any year may not always equal the employer contributions to the pension schemes.

**Leases**

The rental costs of properties and other assets held under operating leases are charged to the profit and loss account on a straight line basis. Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the profit and loss account on a straight line basis over the lease term or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.

The cost of assets held under finance leases is included under tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned. The corresponding obligations under these leases are shown as creditors. The finance charge element of rentals is charged to the profit and loss account to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligations.

**Deferred taxation**

A deferred taxation provision is made only where the effects of timing differences between profits as stated in the financial statements and as computed for tax purposes are likely to reverse in the foreseeable future. Advance corporation tax is carried forward to the extent it is expected to be recovered.

No provision is made for any potential liability to corporation tax on capital gains arising on disposals of assets where the liability is expected to be deferred indefinitely.

No provision is made for taxation liabilities which would arise on the distribution of profits retained by overseas subsidiaries and associates as there is no present intention to remit the major part of these profits.

**Exceptional items**

Exceptional items are those which fall within the ordinary activities of the group and which need to be disclosed by virtue of their size or incidence. Such items are included within operating profit unless they represent profits or losses on the sale or termination of an operation, costs of a fundamental reorganisation or restructuring having a material effect on the nature and focus of the group's operations, profits or losses on the disposal of fixed assets (other than marginal adjustments to depreciation previously charged), or provisions in respect of such items. In these cases, disclosure is made on the face of the profit and loss account after operating profit.

# Notes relating to the Financial Statements

**1 Segmental information**

**(i) Turnover by business segment**

| | Notes | Total 1999 £m | Inter-segmental 1999 £m | External 1999 £m | Total 1998 £m | Inter-segmental 1998 £m | External 1998 £m |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| Boots The Chemists | a | **3,823.1** | **–** | **3,823.1** | 3,573.7 | – | 3,573.7 |
| Boots Retail International | b | **15.8** | **–** | **15.8** | 5.2 | – | 5.2 |
| Boots Opticians | | **194.3** | **–** | **194.3** | 182.9 | – | 182.9 |
| Halfords | | **457.3** | **0.6** | **456.7** | 435.0 | 0.7 | 434.3 |
| Boots Properties | c | **96.3** | **79.3** | **17.0** | 149.6 | 82.9 | 66.7 |
| Boots Healthcare International | | **308.4** | **18.6** | **289.8** | 273.7 | 16.5 | 257.2 |
| Boots Contract Manufacturing | | **309.8** | **194.1** | **115.7** | 314.9 | 196.5 | 118.4 |
| | | **5,205.0** | **292.6** | **4,912.4** | 4,935.0 | 296.6 | 4,638.4 |
| **Discontinued operations (see note 4(ii))** | | | | | | | |
| Do It All | | **132.2** | **–** | **132.2** | 337.2 | – | 337.2 |
| A G Stanley | | **–** | **–** | **–** | 46.3 | – | 46.3 |
| | | **5,337.2** | **292.6** | **5,044.6** | 5,318.5 | 296.6 | 5,021.9 |

**a** Acquisitions contributed £17.1m to the turnover of Boots The Chemists in the current year (see note 4).
**b** There were no sales by the joint venture in either year.
**c** Boots Properties' turnover includes development income of £4.8m (1998 £49.4m).

**(ii) Turnover by geographical segment**

| | Origin 1999 £m | Origin 1998 £m | Destination 1999 £m | Destination 1998 £m |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| UK | **4,644.5** | 4,420.7 | **4,551.7** | 4,340.1 |
| Rest of Europe | **239.6** | 173.1 | **283.9** | 214.2 |
| Rest of World | **59.7** | 71.8 | **76.8** | 84.1 |
| Inter-segmental | **(31.4)** | (27.2) | **–** | – |
| | **4,912.4** | 4,638.4 | **4,912.4** | 4,638.4 |
| **Discontinued operations** | | | | |
| UK | **132.2** | 383.5 | **132.2** | 383.5 |
| | **5,044.6** | 5,021.9 | **5,044.6** | 5,021.9 |

## 1 Segmental information continued

### (iii) Total operating profit by business segment

| | Notes | Before exceptional items 1999 £m | Exceptional operating items (note 3) 1999 £m | Total 1999 £m | Before exceptional items 1998 £m | Exceptional operating items (note 3) 1998 £m | Total 1998 £m |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| Boots The Chemists | | **461.0** | **(8.9)** | **452.1** | 443.8 | – | 443.8 |
| Boots Retail International – group | | **(19.2)** | **–** | **(19.2)** | (21.2) | – | (21.2) |
| – share of joint venture | | **(1.7)** | **–** | **(1.7)** | – | – | – |
| Boots Opticians | | **14.5** | **–** | **14.5** | 17.0 | 14.3 | 31.3 |
| Halfords | | **40.3** | **–** | **40.3** | 34.2 | – | 34.2 |
| Boots Properties | a | **65.2** | **–** | **65.2** | 76.0 | – | 76.0 |
| Boots Healthcare International | | **15.3** | **(5.2)** | **10.1** | 1.2 | (8.8) | (7.6) |
| Boots Contract Manufacturing | | **24.3** | **(2.5)** | **21.8** | 24.7 | – | 24.7 |
| Group costs | | **(40.0)** | **(59.7)** | **(99.7)** | (36.0) | – | (36.0) |
| | | **559.7** | **(76.3)** | **483.4** | 539.7 | 5.5 | 545.2 |
| **Discontinued operations** | | | | | | | |
| Do It All | | **2.7** | **–** | **2.7** | 2.5 | – | 2.5 |
| A G Stanley | | **–** | **–** | **–** | (4.2) | – | (4.2) |
| Total operating profit including joint venture | | **562.4** | **(76.3)** | **486.1** | 538.0 | 5.5 | 543.5 |

**a** Boots Properties' results include development losses of £0.2m (1998 profits £8.8m).
**b** Non-operating exceptionals are shown in note 3.

### (iv) Total operating profit by geographic origin

| | Before exceptional items 1999 £m | Exceptional operating items (note 3) 1999 £m | Total 1999 £m | Before exceptional items 1998 £m | Exceptional operating items (note 3) 1998 £m | Total 1998 £m |
|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | |
| UK | **583.9** | **(14.7)** | **569.2** | 569.9 | 6.2 | 576.1 |
| Rest of Europe | **10.8** | **(1.4)** | **9.4** | 2.0 | (0.7) | 1.3 |
| Rest of World | **5.0** | **(0.5)** | **4.5** | 3.8 | – | 3.8 |
| Group costs | **(40.0)** | **(59.7)** | **(99.7)** | (36.0) | – | (36.0) |
| | **559.7** | **(76.3)** | **483.4** | 539.7 | 5.5 | 545.2 |
| **Discontinued operations** | | | | | | |
| UK | **2.7** | **–** | **2.7** | (1.7) | – | (1.7) |
| Total operating profit including joint venture | **562.4** | **(76.3)** | **486.1** | 538.0 | 5.5 | 543.5 |

### (v) Net assets by business segment

| | 1999 £m | 1998* £m |
|---|---|---|
| **Continuing operations** | | |
| Boots The Chemists | **835.2** | 657.2 |
| Boots Retail International | **32.8** | 8.8 |
| Boots Opticians | **50.0** | 42.6 |
| Halfords | **114.1** | 106.2 |
| Boots Properties | **884.1** | 866.1 |
| Boots Healthcare International | **103.1** | 80.0 |
| Boots Contract Manufacturing | **169.0** | 165.5 |
| | **2,188.3** | 1,926.4 |
| **Discontinued operation** | | |
| Do It All | – | 90.2 |
| Net operating assets | **2,188.3** | 2,016.6 |
| Unallocated net liabilities | **(407.7)** | (365.7) |
| | **1,780.6** | 1,650.9 |

Net operating assets include intangible and tangible fixed assets, fixed asset investments, stocks, third party debtors and creditors and inter-segmental trading balances. Unallocated net liabilities include all current taxation balances, dividend creditors, net debt/funds and provisions for liabilities and charges.

### (vi) Net operating assets by geographical segment

| | 1999 £m | 1998* £m |
|---|---|---|
| **Continuing operations** | | |
| UK | **2,081.0** | 1,858.1 |
| Rest of Europe | **73.7** | 44.9 |
| Rest of World | **33.6** | 23.4 |
| | **2,188.3** | 1,926.4 |
| **Discontinued operation** | | |
| UK | – | 90.2 |
| | **2,188.3** | 2,016.6 |

*Restated as explained in note 20.

## 2 Total operating profit

| | Continuing operations 1999 £m | Discontinued operation 1999 £m | Total 1999 £m | Continuing operations 1998 £m | Discontinued operations 1998 £m | Total 1998 £m |
|---|---|---|---|---|---|---|
| Turnover | **4,912.4** | **132.2** | **5,044.6** | 4,638.4 | 383.5 | 5,021.9 |
| Cost of sales | **(2,632.9)** | **(62.2)** | **(2,695.1)** | (2,505.7) | (172.0) | (2,677.7) |
| Gross profit | **2,279.5** | **70.0** | **2,349.5** | 2,132.7 | 211.5 | 2,344.2 |
| Selling, distribution and store costs | **(1,415.3)** | **(57.4)** | **(1,472.7)** | (1,310.0) | (189.4) | (1,499.4) |
| Research and development costs | **(24.8)** | **–** | **(24.8)** | (25.6) | – | (25.6) |
| Administrative expenses | **(354.3)** | **(9.9)** | **(364.2)** | (251.9) | (23.8) | (275.7) |
| Share of operating loss of joint venture | **(1.7)** | **–** | **(1.7)** | – | – | – |
| **Total operating profit/(loss)** | **483.4** | **2.7** | **486.1** | 545.2 | (1.7) | 543.5 |
| Exceptional (charges)/credits included in operating profit: | | | | | | |
| Cost of sales | **(1.8)** | **–** | **(1.8)** | 14.3 | – | 14.3 |
| Selling, distribution and store costs | **(7.4)** | **–** | **(7.4)** | (0.7) | – | (0.7) |
| Administrative expenses | **(67.1)** | **–** | **(67.1)** | (8.1) | – | (8.1) |
| | **(76.3)** | **–** | **(76.3)** | 5.5 | – | 5.5 |
| Gross profit before exceptional items | **2,281.3** | **70.0** | **2,351.3** | 2,118.4 | 211.5 | 2,329.9 |
| Total operating profit/(loss) before exceptional items | **559.7** | **2.7** | **562.4** | 539.7 | (1.7) | 538.0 |

The results of continuing operations in 1999 include the following amounts relating to acquisitions: turnover £17.7m, cost of sales £12.9m, selling, distribution and store costs £6.3m, research and development costs £Nil, administrative expenses £2.8m.

| **Total operating profit is after charging:** | 1999 £m | 1998 £m |
|---|---|---|
| Operating lease rentals | | |
| – Property rents | **182.1** | 215.9 |
| – Computer and plant hire | **4.0** | 5.4 |
| Depreciation and amortisation of fixed assets | **139.2** | 122.1 |
| Amortisation of goodwill | **0.9** | – |
| Auditors' remuneration, including £0.3m (1998 £0.3m) for the parent company | **0.8** | 0.8 |

The group auditors and their associates also received £1.9m (1998 £2.3m) in respect of non-audit services in the UK and £0.3m (1998 £0.2m) from overseas subsidiaries.

## 3 Exceptional items

| | Notes | Continuing operations 1999 £m | Discontinued operation 1999 £m | Total 1999 £m | Continuing operations 1998 £m | Discontinued operations 1998 £m | Total 1998 £m |
|---|---|---|---|---|---|---|---|
| **Exceptional operating items:** | | | | | | | |
| Boots The Chemists | a | **(8.9)** | – | **(8.9)** | – | – | – |
| Boots Opticians | b | – | – | – | 14.3 | – | 14.3 |
| Boots Healthcare International | c | **(5.2)** | – | **(5.2)** | (8.8) | – | (8.8) |
| Boots Contract Manufacturing | d | **(2.5)** | – | **(2.5)** | – | – | – |
| Group costs | e | **(59.7)** | – | **(59.7)** | – | – | – |
| | | **(76.3)** | – | **(76.3)** | 5.5 | – | 5.5 |
| **Profit on disposal of fixed assets:** | | | | | | | |
| Profit on disposal of properties | | **4.6** | **0.3** | **4.9** | 41.0 | 4.0 | 45.0 |
| Profit on disposal of intangible assets | f | – | – | – | 2.1 | – | 2.1 |
| | | **4.6** | **0.3** | **4.9** | 43.1 | 4.0 | 47.1 |
| **Loss on disposal of businesses (see note 4)** | | – | **(318.9)** | **(318.9)** | – | (173.9) | (173.9) |
| | | **(71.7)** | **(318.6)** | **(390.3)** | 48.6 | (169.9) | (121.3) |
| **Attributable tax credit/(charge) (see note 6)** | | **23.6** | – | **23.6** | (2.0) | – | (2.0) |
| | | **(48.1)** | **(318.6)** | **(366.7)** | 46.6 | (169.9) | (123.3) |

**a** Boots The Chemists has incurred costs of integrating the Hayes Conyngham & Robinson and Connors businesses into the Boots The Chemists chain.

**b** VAT recoverable by Boots Opticians arises from the High Court decision that VAT is not payable on the dispensing of spectacles. The amounts shown above represent VAT recovered last year from HM Customs & Excise.

**c** Boots Healthcare International has incurred costs associated with the restructuring of business support services. Provision was also made last year for integrating the Hermal business into its skincare operations.

**d** Boots Contract Manufacturing has initiated a competitive cost programme resulting in redundancy costs.

**e** During the year the group established a QUEST (see note 12). The amount shown above represents the cost of the company's contribution to the QUEST being the difference between the market value of the shares bought by the QUEST and the option price payable by employees to acquire those shares when SAYE options over them mature.

**f** Boots Healthcare International sold its Femfresh brand during last year for £2.1m.

## 4 Purchase and disposal of businesses

### (i) Acquisitions

| | Total 1999 £m | Total 1998 £m |
|---|---|---|
| Tangible fixed assets | **4.6** | 17.6 |
| Intangible fixed assets | – | 0.4 |
| Stocks | **7.7** | 9.6 |
| Debtors | **1.6** | 7.2 |
| (Overdrafts)/cash balances | **(4.1)** | 2.9 |
| Other creditors and provisions | **(8.5)** | (20.6) |
| Minority interests | – | (1.1) |
| **Fair value of net assets acquired** | **1.3** | 16.0 |
| **Goodwill – current year** | **22.8** | – |
| **– relating to acquisitions prior to 1st April 1998** | **1.4** | 189.3 |
| **Consideration including acquisition costs** | **25.5** | 205.3 |
| Deferred consideration included above | – | 0.9 |
| Variable rate loan notes consideration included above | **16.8** | 11.3 |

All businesses purchased have been accounted for using the acquisition method of accounting. None of these were individually significant and are therefore not shown separately.

On 7th April 1998, Boots The Chemists acquired Connors Holdings Ltd (Connors), a privately owned retail pharmacy chain for £17m with stores in Northern Ireland, the Republic of Ireland, England and Wales. Upon acquisition of Connors a fair value adjustment of £0.9m was made to reduce the tangible fixed assets.

Boots The Chemists acquired a number of other pharmacy businesses during the year for an aggregate consideration of £5.4m. There were no significant fair value adjustments in respect of any of these acquisitions.

Goodwill relating to acquisitions in the year is being amortised over 20 years.

The principal purchase during the year to 31st March 1998 was Boots Healthcare International's acquisition of Hermal Kurt Herrman oHG from Merck KGaA for DM501m (£176.2m).

## 4 Purchase and disposal of businesses continued

### (ii) Disposals

| | 1999 £m | 1998 £m |
|---|---|---|
| Tangible fixed assets | **(55.7)** | (24.4) |
| Stocks | **(68.9)** | (24.4) |
| Debtors | **(12.4)** | (2.5) |
| Overdrafts/(cash balances) | **0.1** | (7.1) |
| Other creditors and provisions | **70.0** | 18.5 |
| **Net assets disposed of** | **(66.9)** | (39.9) |
| Related goodwill | **(312.2)** | (121.5) |
| Disposal and other termination costs | **(2.0)** | (12.5) |
| Consideration | **62.2** | – |
| **Loss on disposal** | **(318.9)** | (173.9) |
| Consideration repayable included above | **(2.3)** | – |

**Do It All**

The disposal of Do It All to Focus Retail Group Ltd (Focus) was completed on 19th August 1998 for a consideration of £62.2m which includes a repayment by Boots of £2.3m to Focus in respect of the final settlement on completion of the net asset value statement in May 1999. Boots will continue to act as guarantor for leases on 29 stores associated with this transaction with a total annual rent of £6m.

Do It All is a discontinued operation and its results for both the current year and prior years have been classified accordingly.

**A G Stanley**

The disposal in the year to 31st March 1998 was the sale of A G Stanley to Alchemy Partners for a cash consideration of £1. This disposal was classified as a discontinued operation.

### (iii) Net cash inflow/(outflow) for acquisitions and disposals

| | 1999 £m | 1998 £m |
|---|---|---|
| Purchase of businesses | **(8.7)** | (193.1) |
| (Overdrafts)/cash balances acquired with businesses | **(4.1)** | 2.9 |
| Instalment received on loan made to W H Smith | **10.0** | 10.0 |
| Disposal of businesses | **64.5** | – |
| Overdrafts/(cash balances) sold with businesses | **0.1** | (7.1) |
| Deferred consideration in respect of prior year acquisitions and disposals | **(0.1)** | (0.7) |
| Costs of disposals paid | **(0.4)** | (2.4) |
| Investment in joint venture | **(6.5)** | – |
| Investment by minority interests in subsidiary undertaking | **0.4** | – |
| | **55.2** | (190.4) |

### 5 Net interest

| | 1999 £m | 1998 £m |
|---|---|---|
| **Interest payable and similar charges:** | | |
| Bank loans and overdrafts | **(14.8)** | (14.2) |
| Other loans | **(27.8)** | (26.3) |
| Finance lease charges | **(1.3)** | (1.5) |
| Interest capitalised | **3.1** | 6.5 |
| Income from interest rate swaps | **8.8** | 11.6 |
| | **(32.0)** | (23.9) |
| **Interest receivable and similar income** | **13.7** | 24.0 |
| **Increase in value of investment in 10.125% bond 2017** | **16.5** | 15.1 |
| **Net interest** | **(1.8)** | 15.2 |

### 6 Tax on profit on ordinary activities

| | 1999 £m | 1998 £m |
|---|---|---|
| UK corporation tax at 31.0% (1998 31.0%) | **139.2** | 165.9 |
| Deferred taxation | **4.6** | 0.2 |
| Relief for overseas taxation | **(1.3)** | (0.8) |
| Total UK taxation | **142.5** | 165.3 |
| Overseas taxation | **4.4** | 4.0 |
| Overseas deferred taxation | **(0.6)** | (0.1) |
| Total | **146.3** | 169.2 |
| Tax (credit)/charge included above attributable to operating exceptional items | **(23.6)** | 2.0 |

### 7 Profit for the financial year attributable to shareholders

Of the profit attributable to shareholders, £73.2m (1998 £1,050.7m) is dealt with in the financial statements of the parent company.

### 8 Dividends

| | 1999 p per share | 1998 p per share | 1999 £m | 1998 £m |
|---|---|---|---|---|
| Interim | **7.1** | 6.7 | **64.8** | 61.1 |
| Final proposed | **16.7** | 15.6 | **149.7** | 142.3 |
| | **23.8** | 22.3 | **214.5** | 203.4 |

## 9 Earnings per share

| 9 Earnings per share | 1999 | 1998 |
|---|---|---|
| Basic earnings per share before exceptional items | **42.9p** | 42.6p |
| Effect of exceptional items | **(40.3)p** | (13.6) |
| Basic earnings per share | **2.6p** | 29.0p |
| Fully diluted earnings per share before exceptional items | **42.5p** | 42.2p |
| Effect of exceptional items | **(39.9)p** | (13.4) |
| Fully diluted earnings per share | **2.6p** | 28.8p |

The calculation of basic and fully diluted earnings per share is based on:

| Earnings | 1999 £m | 1998 £m |
|---|---|---|
| Earnings for adjusted basic and diluted earnings per share calculation | **390.6** | 387.3 |
| Exceptional items | **(366.7)** | (123.3) |
| Earnings for basic and diluted earnings per share calculation | **23.9** | 264.0 |

| Number of shares | 1999 million | 1998 million |
|---|---|---|
| Weighted average number of shares used in basic earnings per share calculation | **911.1** | 909.7 |
| Dilutive effect of options | **8.3** | 7.2 |
| Weighted average number of shares used in fully diluted earnings per share calculation | **919.4** | 916.9 |

The weighted average number of shares used in basic earnings per share calculation excludes shares held by the Boots ESOP Trust Ltd and the QUEST.

The dilutive effect relates to options under an employee savings related scheme and an executive option scheme.

Basic and fully diluted earnings per share before exceptional items are disclosed to reflect the underlying performance of the group.

## 10 Intangible fixed assets

| | Group Purchased goodwill £m | Group Patents, trademarks and other product rights acquired £m | Group Total £m | Parent Patents, trademarks and other product rights acquired £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1st April 1998 | – | 44.8 | 44.8 | 8.7 |
| Additions | – | 16.3 | 16.3 | 0.3 |
| Purchase of businesses (see note 4) | 22.8 | – | 22.8 | – |
| **At 31st March 1999** | **22.8** | **61.1** | **83.9** | **9.0** |
| **Amortisation** | | | | |
| At 1st April 1998 | – | 15.5 | 15.5 | 5.7 |
| Amortisation for year | 0.9 | 3.1 | 4.0 | 0.5 |
| **At 31st March 1999** | **0.9** | **18.6** | **19.5** | **6.2** |
| Net book value at 1st April 1998 | – | 29.3 | 29.3 | 3.0 |
| **Net book value at 31st March 1999** | **21.9** | **42.5** | **64.4** | **2.8** |

During the year Boots Healthcare International (BHI) acquired the brand rights to two consumer healthcare brands from the German over the counter company Klosterfrau for DM46.7m (£15.7m). These brands, Dobendan and its derivatives, and Migränin are well known and well positioned in their markets and BHI plans to improve this position. BHI have concluded that these brands have an indefinite useful economic life and they are not being amortised. As a consequence an annual impairment review will be undertaken. The valuation of these brands is significantly in excess of the carrying value.

### 11 Tangible fixed assets

| Group | Land and buildings £m | Plant and machinery £m | Fixtures, fittings, tools and equipment £m | Payments on account and assets in course of construction £m | Total £m |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1st April 1998 | 924.7 | 294.4 | 1,131.3 | 62.7 | 2,413.1 |
| Currency adjustments | 0.8 | 0.4 | 0.3 | – | 1.5 |
| Additions | 41.0 | 70.3 | 208.2 | 49.9 | 369.4 |
| Purchase of businesses | 0.9 | – | 4.1 | – | 5.0 |
| Disposals | (46.7) | (16.5) | (55.5) | (0.2) | (118.9) |
| Disposal of business | (35.2) | (11.5) | (32.4) | (0.4) | (79.5) |
| Reclassifications | 16.6 | 10.4 | 18.3 | (45.3) | – |
| Revaluation deficit on investment properties | (1.4) | – | – | – | (1.4) |
| Impairment losses on revalued assets | (1.7) | – | – | – | (1.7) |
| Property development transfer | – | – | – | 6.9 | 6.9 |
| **At 31st March 1999** | **899.0** | **347.5** | **1,274.3** | **73.6** | **2,594.4** |
| Gross book value of depreciable assets | 160.6 | 347.5 | 1,274.3 | 60.4 | 1,842.8 |
| **Depreciation** | | | | | |
| At 1st April 1998 | 40.9 | 121.3 | 586.0 | – | 748.2 |
| Currency adjustments | 0.1 | – | (0.1) | – | – |
| Depreciation for year | 7.9 | 33.6 | 91.5 | – | 133.0 |
| Disposals | (0.9) | (12.2) | (43.2) | – | (56.3) |
| Disposal of business | (2.9) | (5.3) | (10.9) | – | (19.1) |
| Reclassifications | 0.1 | – | (0.1) | – | – |
| **At 31st March 1999** | **45.2** | **137.4** | **623.2** | **–** | **805.8** |
| Net book value at 1st April 1998 | 883.8 | 173.1 | 545.3 | 62.7 | 1,664.9 |
| **Net book value at 31st March 1999** | **853.8** | **210.1** | **651.1** | **73.6** | **1,788.6** |

The cost of tangible fixed assets includes £30.8m (1998 £26.9m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £9.6m (1998 £7.0m) and for which the depreciation charge for the year was £5.8m (1998 £4.9m).

Land and buildings and assets in course of construction include capitalised interest, net of taxation, of £5.2m (1998 £6.5m).

Land and buildings include investment properties as follows:

| Valuation | £m |
|---|---|
| At 1st April 1998 | 122.4 |
| Additions | 6.3 |
| Disposals | (24.9) |
| Reclassifications | 2.8 |
| Revaluation deficit | (1.4) |
| **At 31st March 1999** | **105.2** |

Investment properties were valued on the basis of existing use value at 31st March 1999 by the group's own professionally qualified staff.

In accordance with SSAP19, no depreciation is provided in respect of investment properties. This represents a departure from the Companies Act 1985 requirements to provide for the systematic annual depreciation of fixed assets. However, these properties are held for investment, rather than consumption, and the directors consider that the adoption of the above policy is necessary to give a true and fair view.

## 11 Tangible fixed assets continued

| Parent | Land and buildings £m | Plant and machinery £m | Fixtures, fittings, tools and equipment £m | Payments on account and assets in course of construction £m | Total £m |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1st April 1998 | 404.4 | 212.9 | 182.7 | 22.7 | 822.7 |
| Additions | 3.3 | 26.4 | 36.3 | 6.2 | 72.2 |
| Disposals | (10.2) | (10.9) | (19.8) | (0.1) | (41.0) |
| Reclassifications and transfers | 6.1 | 8.5 | (1.2) | (20.1) | (6.7) |
| **At 31st March 1999** | **403.6** | **236.9** | **198.0** | **8.7** | **847.2** |
| Gross book value of depreciable assets | 53.1 | 236.9 | 198.0 | 8.7 | 496.7 |
| **Depreciation** | | | | | |
| At 1st April 1998 | 20.7 | 86.8 | 106.0 | – | 213.5 |
| Depreciation for year | 1.8 | 19.5 | 18.9 | – | 40.2 |
| Disposals | (0.6) | (8.2) | (16.7) | – | (25.5) |
| Transfers | 0.1 | (1.0) | (1.0) | – | (1.9) |
| **At 31st March 1999** | **22.0** | **97.1** | **107.2** | **–** | **226.3** |
| Net book value at 1st April 1998 | 383.7 | 126.1 | 76.7 | 22.7 | 609.2 |
| **Net book value at 31st March 1999** | **381.6** | **139.8** | **90.8** | **8.7** | **620.9** |

The cost of tangible fixed assets includes £17.6m (1998 £15.2m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £5.5m (1998 £4.0m) and for which the depreciation charge for the year was £3.5m (1998 £2.5m).

| | **Group 1999 £m** | Group 1998 £m | **Parent 1999 £m** | Parent 1998 £m |
|---|---|---|---|---|
| **Net book value of land and buildings comprises:** | | | | |
| Freehold | **656.3** | 712.0 | **346.5** | 355.5 |
| Long leasehold (more than 50 years unexpired) | **162.2** | 124.1 | **35.1** | 28.2 |
| Short leasehold | **35.3** | 47.7 | **–** | – |
| | **853.8** | 883.8 | **381.6** | 383.7 |
| **Analysis of cost or valuation:** | | | | |
| Cost | **1,897.6** | 1,688.4 | **839.6** | 815.1 |
| Valuation of properties – Directors 1993 | **582.9** | 593.6 | **–** | – |
| – Independent 1989 | **4.0** | 4.0 | **3.3** | 3.3 |
| – Independent 1965 | **0.4** | 0.4 | **–** | – |
| – Independent 1958 | **4.3** | 4.3 | **4.3** | 4.3 |
| Investment properties – Directors 1999 | **105.2** | 122.4 | **–** | – |
| | **2,594.4** | 2,413.1 | **847.2** | 822.7 |
| **Value of tangible fixed assets under the historical cost convention** | | | | |
| Cost | **2,317.5** | 2,126.1 | **846.5** | 821.9 |
| Depreciation | **804.9** | 746.0 | **225.9** | 213.0 |
| **Net book value** | **1,512.6** | 1,380.1 | **620.6** | 608.9 |

The valuations are on an open market basis for existing use.

## 12 Fixed asset investments

| | Group Joint venture equity £m | Group Own shares £m | Group Total £m | Parent Shares in subsidiary undertakings £m | Parent Loans to subsidiary undertakings £m | Parent Joint venture equity £m | Parent Own shares £m | Parent Total £m |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 1st April 1998 | – | 4.2 | 4.2 | 1,738.8 | 73.1 | – | 4.2 | 1,816.1 |
| Additions | 6.5 | 166.4 | 172.9 | 26.3 | 28.6 | 6.5 | 166.4 | 227.8 |
| Disposals and repayments | – | – | – | (178.8) | (6.9) | – | – | (185.7) |
| Currency adjustments | 1.4 | – | 1.4 | – | 1.3 | – | – | 1.3 |
| Share of retained loss | (1.7) | – | (1.7) | – | – | – | – | – |
| **At 31st March 1999** | **6.2** | **170.6** | **176.8** | **1,586.3** | **96.1** | **6.5** | **170.6** | **1,859.5** |
| **Provision/amortisation** | | | | | | | | |
| At 1st April 1998 | – | 1.6 | 1.6 | 189.1 | 6.0 | – | 1.6 | 196.7 |
| Disposal | – | – | – | (110.4) | – | – | – | (110.4) |
| Movement | – | – | – | (9.6) | (3.9) | – | – | (13.5) |
| Permanent diminution – QUEST | – | 59.7 | 59.7 | – | – | – | 59.7 | 59.7 |
| Amortisation of own shares – ESOP | – | 3.1 | 3.1 | – | – | – | 3.1 | 3.1 |
| **At 31st March 1999** | **–** | **64.4** | **64.4** | **69.1** | **2.1** | **–** | **64.4** | **135.6** |
| Net book value at 1st April 1998 | – | 2.6 | 2.6 | 1,549.7 | 67.1 | – | 2.6 | 1,619.4 |
| **Net book value at 31st March 1999** | **6.2** | **106.2** | **112.4** | **1,517.2** | **94.0** | **6.5** | **106.2** | **1,723.9** |

The principal subsidiary undertakings are listed on page 75.

### Own shares

The Boots ESOP Trust Ltd, on behalf of The Boots Employee Trust, holds shares in the company which may subsequently be transferred to executive directors and senior employees under The Boots Long Term Bonus Scheme (see page 39) and The Boots Restricted Share Co-Investment Scheme. Under this latter scheme, awards under which have now ceased, participating senior employees purchased shares in the company using up to 50% of their annual bonus earned during the previous year and were granted a potential entitlement to receive a number of further shares equivalent to twice the pre-tax value of the sum invested. The employees' entitlement to receive the shares at the end of a specified performance period depends on the company's total shareholder return, compared to a peer group of companies, over that period. At 31st March 1999, the trust held 1.6m (1998 0.5m) shares in the company with a market value of £14.7m (1998 £5.0m). Dividends have been waived by the trust. The shares were purchased to service The Boots Long Term Bonus Scheme and The Boots Restricted Share Co-investment Scheme awards for all the performance cycles that have begun. Estimates have been made for the number of shares required for performance cycles which have not yet ended. Their cost, £15.8m, is being charged to the profit and loss account over the relevant performance and service periods. Costs of administering the trust are charged to the profit and loss account.

During the year a qualifying employee share ownership trust ('the trust') was established by the company under a deed of trust dated 16th February 1999. The purpose of the trust is to acquire shares in the company as a means through which shares will be delivered to employees (including executive directors) who exercised options granted in respect of the company's shares under the Boots 1990 SAYE Share Option Scheme. Under this scheme, options have been granted enabling employees to subscribe for ordinary shares at 80% of the average middle market price on the three days preceding the date of offer. The options may normally be exercised up to six months after they mature either three, five or seven years after grant.

At 31st March 1999 16.9m (1998 Nil) ordinary shares at a cost of £154.8m (1998 £Nil) with a market value of £150.9m (1998 £Nil) had been purchased by Boots (QUEST) Trustee Limited on behalf of the trust. The company provided funds to the trust for this purpose. A provision for permanent diminution in the value of shares of £59.7m has been charged to the profit and loss account as an exceptional item (see note 3). Dividends have been waived by the trust.

Outstanding options for which shares have been acquired are as follows:

| Option granted | **Number of shares held (millions) 1999** | Number of shares held (millions) 1998 | Option price (p) |
|---|---|---|---|
| 1991 | **0.1** | – | 337 |
| 1992 | **0.4** | – | 352 |
| 1992 | **0.2** | – | 386 |
| 1993 | **0.3** | – | 350 |
| 1993 | **0.4** | – | 418 |
| 1994 | **1.1** | – | 421 |
| 1994 | **1.0** | – | 415 |
| 1995 | **1.8** | – | 410 |
| 1996 | **3.0** | – | 485 |
| 1997 | **4.6** | – | 588 |
| 1998 | **4.0** | – | 808 |

## 13 Stocks

| | Group 1999 £m | Group 1998 £m | Parent 1999 £m | Parent 1998 £m |
|---|---|---|---|---|
| Manufacturing: | | | | |
| Raw materials | **24.8** | 25.3 | **14.0** | 15.1 |
| Work in progress | **9.2** | 11.6 | **7.3** | 9.8 |
| Finished goods | **58.3** | 51.6 | **35.2** | 31.8 |
| | **92.3** | 88.5 | **56.5** | 56.7 |
| Retailing | **578.7** | 583.4 | **143.6** | 138.1 |
| Property development | **51.0** | 37.4 | **–** | – |
| | **722.0** | 709.3 | **200.1** | 194.8 |

## 14 Debtors

| | Group 1999 £m | Group 1998 £m | Parent 1999 £m | Parent 1998 £m |
|---|---|---|---|---|
| **Falling due within one year:** | | | | |
| Trade debtors | **268.7** | 227.0 | **49.5** | 31.4 |
| Owed by subsidiary undertakings | **–** | – | **185.6** | 2,142.1 |
| Owed by joint venture | **1.7** | – | **1.5** | – |
| Other debtors | **43.0** | 64.1 | **58.9** | 68.8 |
| Prepayments and accrued income | **72.4** | 65.8 | **16.5** | 18.4 |
| Corporation tax | **2.3** | 2.6 | **–** | – |
| Advance corporation tax | **–** | 27.4 | **51.7** | 26.4 |
| | **388.1** | 386.9 | **363.7** | 2,287.1 |
| **Falling due after more than one year:** | | | | |
| Owed by subsidiary undertakings | **–** | – | **250.9** | 350.5 |
| Other debtors | **14.1** | 22.4 | **22.3** | 29.3 |
| Advance corporation tax | **–** | 35.6 | **–** | 35.6 |
| Corporation tax | **–** | 0.7 | **–** | – |
| | **14.1** | 58.7 | **273.2** | 415.4 |
| | **402.2** | 445.6 | **636.9** | 2,702.5 |

## 15 Current asset investments and deposits

| | Group 1999 £m | Group 1998 £m | Parent 1999 £m | Parent 1998 £m |
|---|---|---|---|---|
| Listed investments | **0.1** | 0.1 | **–** | – |
| Short term deposits | **96.3** | 218.8 | **67.9** | 195.7 |
| Certificates of tax deposit | **9.4** | 9.8 | **9.4** | 9.8 |
| | **105.8** | 228.7 | **77.3** | 205.5 |
| Market value of investments listed on The London Stock Exchange | **0.2** | 0.2 | **–** | – |

## 16 Creditors: Amounts falling due within one year

| | Group 1999 £m | Group 1998 £m | Parent 1999 £m | Parent 1998 £m |
|---|---|---|---|---|
| Borrowings (see note 18) | **246.3** | 196.9 | **345.1** | 1,273.3 |
| Trade creditors | **360.2** | 366.3 | **270.4** | 260.6 |
| Bills of exchange | **2.8** | 6.9 | **0.1** | 0.1 |
| Due to subsidiary undertakings | **–** | – | **48.7** | 47.8 |
| Corporation tax | **106.0** | 104.4 | **8.3** | 7.7 |
| Advance corporation tax | **16.1** | 50.9 | **16.1** | 50.8 |
| Taxation and social security (including VAT and other sales taxes) | **37.0** | 26.8 | **16.1** | 12.6 |
| Other creditors | **171.0** | 144.4 | **83.8** | 60.2 |
| Accruals and deferred income | **101.8** | 116.1 | **47.6** | 60.9 |
| Dividends (see note 8) | **149.8** | 142.3 | **149.7** | 142.3 |
| | **1,191.0** | 1,155.0 | **985.9** | 1,916.3 |

## 17 Creditors: Amounts falling due after more than one year

| | Group 1999 £m | Group 1998 £m | Parent 1999 £m | Parent 1998 £m |
|---|---|---|---|---|
| Borrowings (see note 18) | **186.5** | 216.8 | **385.4** | 394.2 |
| Due to subsidiary undertakings | **–** | – | **104.9** | 1,092.5 |
| Due to joint venture | **0.2** | – | **–** | – |
| Other creditors | **5.1** | 3.4 | **2.4** | 0.3 |
| Accruals and deferred income | **38.9** | 38.4 | **20.9** | 21.9 |
| | **230.7** | 258.6 | **513.6** | 1,508.9 |

The only creditors falling due after more than five years are included in borrowings, details of which are shown in note 18.

## 18 Borrowings

| | Notes | Group 1999 £m | Group 1998 £m | Parent 1999 £m | Parent 1998 £m |
|---|---|---|---|---|---|
| Bank loans and overdrafts repayable on demand | | **130.3** | 139.6 | **277.2** | 1,240.3 |
| Other bank loans and overdrafts | a | **131.2** | 140.7 | **124.3** | 138.6 |
| Variable rate notes – Sterling | b | **28.3** | 15.6 | **11.4** | 15.6 |
| – Irish punts | b | **11.3** | 11.1 | **–** | – |
| Commercial paper | | **39.7** | – | **39.7** | – |
| 10.125% bond 2017 | c | **65.8** | 82.3 | **259.6** | 256.4 |
| Net liability under currency swaps | d | **6.3** | 4.7 | **6.3** | 4.7 |
| Obligations under finance leases | | **19.9** | 19.7 | **12.0** | 11.9 |
| | | **432.8** | 413.7 | **730.5** | 1,667.5 |
| Amounts included above repayable by instalments | | **221.3** | 251.7 | **136.2** | 150.5 |
| **Repayments fall due as follows:** | | | | | |
| Within one year: | | | | | |
| – Bank loans and overdrafts | | **130.7** | 139.9 | **277.2** | 1,240.3 |
| – Obligations under finance leases | | **7.8** | 7.0 | **4.8** | 4.2 |
| – Other borrowings | | **107.8** | 50.0 | **63.1** | 28.8 |
| | | **246.3** | 196.9 | **345.1** | 1,273.3 |
| After more than one year: | | | | | |
| – Within one to two years | | **44.1** | 37.5 | **17.2** | 16.5 |
| – Within two to five years | | **85.5** | 104.2 | **315.1** | 306.3 |
| – After five years | | **56.9** | 75.1 | **53.1** | 71.4 |
| | | **186.5** | 216.8 | **385.4** | 394.2 |
| | | **432.8** | 413.7 | **730.5** | 1,667.5 |

**a** Other bank loans and overdrafts include the factoring of certain rental commitments of £124.3m (1998 £138.6m) over a ten year period up to March 2007, £95m of which was swapped into a floating rate of interest.
**b** Variable rate notes are repayable, subject to certain restrictions, at the option of the holders.
**c** A subsidiary, Boots Investments Limited, owns all the £250m 10.125% bond 2017 of The Boots Company PLC, together with all the outstanding interest coupons other than those maturing on or before 24th June 2002. The parent company has entered into an agreement with Boots Investments Limited to redeem the bond on 25th June 2002 for an amount of £275m. The group balance sheet consolidates the borrowing by the parent company with the present value of the investment held by the subsidiary.
**d** The group has a number of US dollar currency swaps, which are equivalent to borrowing US dollars and depositing sterling for a fixed period. Following the disposal of Boots Pharmaceuticals on 31st March 1995, the group put in place a series of matching swaps, which are equivalent to depositing US dollars and borrowing sterling. The net liability shown above represents the effect of translating the above transactions into sterling at the year end exchange rate.
**e** The group has a number of interest rate swap agreements which convert fixed rate liabilities to floating rate. The fixed rate commitments effectively converted are, £55m of the 10.125% bond, £875m of operating leases and £95m referred to in note 'a' above. Further details are provided in the Financial Review on page 30.
**f** All borrowings are unsecured.

## 19 Financial instruments and derivatives

An explanation of treasury policy and controls can be found in the financial review on page 29.

### (i) Fair values of financial assets and liabilities

The fair value of currency and interest rate swaps, fixed rate borrowings, and long term financial assets on which no interest is paid have been determined with reference to market prices using discounted cash flows. All other financial assets and liabilities are at floating rates of interest and therefore their fair value and book value are equal.

The majority of the interest rate swaps shown below relate to the swapping of implied fixed rate interest payments on operating leases to floating rate.

| | Note | Book value 1999 £m | Fair value 1999 £m |
|---|---|---|---|
| **Primary financial instruments held or issued to finance the company's operations:** | | | |
| Cash in hand and bank | | **32.2** | **32.2** |
| Current asset investments and deposits | | **105.8** | **105.8** |
| Other financial assets | a | **22.2** | **21.4** |
| Bank loans and overdrafts repayable on demand | | **(130.3)** | **(130.3)** |
| Obligations under finance leases | | **(19.9)** | **(19.9)** |
| Other borrowings (excluding currency swaps) | | **(276.3)** | **(294.1)** |
| Other financial liabilities | a | **(0.6)** | **(0.6)** |
| **Derivative financial instruments held to manage interest rate and currency profile:** | | | |
| Interest rate swaps relating to operating leases | | **–** | **120.3** |
| Interest rate swaps relating to fixed rate borrowings | | **–** | **15.7** |
| Currency swaps (see note 18) | | **(6.3)** | **(14.9)** |
| Interest rate caps | | **–** | **(1.2)** |

a Other financial assets and liabilities are not included in net (debt)/funds (see note 24)

### (ii) Interest rate risk profile as at 31st March 1999

The tables below reflect the interest rate risk profile after taking into account the effect of interest rate swaps.

**(a) Financial liabilities**

| Currency | Floating rate £m | Fixed rate £m | Financial liabilities on which no interest is payable £m | Total £m | Fixed rate weighted average interest rate % | Weighted average period for which rate is fixed Years |
|---|---|---|---|---|---|---|
| Sterling | (335.4) | (59.3) | (0.6) | (395.3) | 8.3 | 4.9 |
| Other | (30.7) | (7.4) | – | (38.1) | 8.5 | 3.6 |
| **At 31st March 1999** | **(366.1)** | **(66.7)** | **(0.6)** | **(433.4)** | **8.3** | **4.8** |

The financial liability on which no interest is payable, is repayable on demand.

In addition to the financial instruments included above, the group also holds a number of interest rate swaps that are used to manage the implicit fixed rate interest on leases. At the year end the notional amount of these swaps was £875m, with an average life to maturity of 7.3 years and a weighted average fixed rate of 7.7%. The floating rate payable on these swaps is based on LIBOR and is capped at 9% for £700m of the swaps.

**(b) Financial assets**

| Currency | Floating rate £m | Fixed rate £m | Financial assets on which no interest is receivable £m | Total £m | Fixed rate weighted average interest rate % | Weighted average period for which rate is fixed Years |
|---|---|---|---|---|---|---|
| Sterling | 85.3 | – | 22.5 | 107.8 | – | – |
| Other | 45.6 | 4.5 | 2.3 | 52.4 | 2.6 | 0.8 |
| **At 31st March 1999** | **130.9** | **4.5** | **24.8** | **160.2** | **2.6** | **0.8** |

The weighted average period to maturity of the sterling asset on which no interest is receivable is eight months. All other financial assets on which no interest is receivable are repayable on demand.

The other currency financial assets relate mainly to bank deposits held by foreign subsidiary companies.

The majority of the floating rate assets and liabilities receive or pay interest based on rates ruling in the London inter-bank market.

## 19 Financial instruments and derivatives continued

### (iii) Foreign currency exposure profile

Operations with a sterling functional currency have Irish punts and US dollar monetary liabilities amounting to £11.4m and £12.0m respectively.

There were no other material foreign currency monetary assets and liabilities that may give rise to an exchange gain or loss in the profit and loss account.

### (iv) Maturity of financial instruments/facilities

At 31st March 1999 the company had the following undrawn committed facilities available:

| | 1999 £m |
|---|---|
| Expiring in one year or less | – |
| Expiring in more than one year but not more than two years | **60.0** |
| Expiring in more than two years | **540.0** |
| | **600.0** |

### (v) The maturity of borrowings

Details are shown in note 18.

### (vi) Hedging

Gains arising from the hedging of interest rates of £8.8m (1998 £11.6m) have been recognised in the profit and loss account. Included in the amount for interest receivable from interest rate swaps is a charge of £0.4m relating to interest rate swaps begun in the current year. The fair values of unrecognised gains and losses at the balance sheet date are disclosed as part of note 19 (i) above. It is not possible to forecast meaningfully the amount that will be recognised in the profit and loss account next year. Further information about these hedges can be found within the financial review on page 30, note 18 and note 19 (ii).

## 20 Provisions for liabilities and charges

| Group | Deferred taxation £m | Acquisition provisions £m | Disposal provisions £m | Total £m |
|---|---|---|---|---|
| At 1st April 1998 | 14.6 | 26.6 | 22.3 | 63.5 |
| Prior year adjustment (see note below) | – | – | (12.0) | (12.0) |
| Restated | 14.6 | 26.6 | 10.3 | 51.5 |
| Profit and loss account | 4.0 | – | – | 4.0 |
| Subsidiaries acquired/disposed | 1.2 | (19.6) | 2.0 | (16.4) |
| Utilised | – | (6.5) | (4.2) | (10.7) |
| Currency adjustments | – | 0.2 | – | 0.2 |
| Transfers to creditors | – | – | (3.3) | (3.3) |
| **At 31st March 1999** | **19.8** | **0.7** | **4.8** | **25.3** |

The acquisition provision represents recognition of costs arising as a result of acquisitions of businesses. At 31st March 1998 the majority of the provision related to onerous contracts in Do It All. At 31st March 1999 the majority of the provision relates to costs of integrating Hermal Kurt Herrman oHG, acquired last year, into Boots Healthcare International.

The disposal provision relates to recognition of costs arising as a result of the disposal of businesses. The significant proportion of this provision at 31st March 1999 relates to the disposal of Do It All which occurred during the year. At 31st March 1998 the majority of this provision related to the disposal of A G Stanley.

The prior period adjustment arises due to a release of provisions relating to businesses which have been disposed of that would not have been recognised under Financial Reporting Standard 12 'Provisions, Contingent Liabilities and Contingent Assets'. The effect on the balance sheet at 31st March 1998 is to reduce provisions for liabilities and charges and increase reserves for the group by £12.0m (parent £3.9m). This total relates to provisions of £8.1m set up in year ended 31st March 1992 and £3.9m in year ended 31st March 1995. There is no impact on the profit and loss account for either this year or the year ended 31st March 1998 but the impact on the year ended 31st March 1995 of an increase in 'other exceptional items' of £3.9m is reflected in the five year group financial record on pages 76 and 77.

Although the majority of provisions should be realised in the next few accounting periods the exact timing is unclear.

| Parent | Deferred taxation £m | Disposal provisions £m | Total £m |
|---|---|---|---|
| At 1st April 1998 | (0.9) | 13.4 | 12.5 |
| Prior year adjustment (see note above) | – | (3.9) | (3.9) |
| Restated | (0.9) | 9.5 | 8.6 |
| Profit and loss account | 1.7 | (3.4) | (1.7) |
| Subsidiaries acquired/disposed | – | 3.1 | 3.1 |
| Utilised | – | (1.9) | (1.9) |
| Transfers to creditors | – | (3.3) | (3.3) |
| **At 31st March 1999** | **0.8** | **4.0** | **4.8** |

| | **Group 1999 £m** | Group 1998 £m | **Parent 1999 £m** | Parent 1998 £m |
|---|---|---|---|---|
| **Analysis of deferred taxation provision:** | | | | |
| Accelerated capital allowances | **11.8** | 13.1 | **–** | – |
| Other items | **8.0** | 1.5 | **0.8** | (0.9) |
| | **19.8** | 14.6 | **0.8** | (0.9) |
| **Unprovided deferred taxation:** | | | | |
| Accelerated capital allowances | **79.6** | 70.8 | **28.6** | 28.9 |
| Other items | **(1.9)** | (1.7) | **(1.1)** | (0.9) |
| | **77.7** | 69.1 | **27.5** | 28.0 |

It is not anticipated that any significant taxation will become payable on the revaluation surplus, as taxation on gains on properties used for the purposes of the group's trade is expected to be deferred indefinitely or eliminated by capital losses.

## 21 Capital and reserves

| Group | Called up share capital £m | Share premium account £m | Revaluation reserve £m | Capital redemption reserve £m | Profit and loss account £m | Total £m |
|---|---|---|---|---|---|---|
| At 1st April 1998 | 228.2 | 243.8 | 286.1 | 36.8 | 844.0 | 1,638.9 |
| Prior year adjustment (see note 20) | – | – | – | – | 12.0 | 12.0 |
| Restated | 228.2 | 243.8 | 286.1 | 36.8 | 856.0 | 1,650.9 |
| Profit/(loss) retained | – | – | 0.4 | – | (190.6) | (190.2) |
| Movement in goodwill (see below) | – | – | – | – | 310.8 | 310.8 |
| Revaluation deficit | – | – | (1.4) | – | – | (1.4) |
| Revaluation surplus realised on disposals | – | – | (7.2) | – | 7.2 | – |
| Impairment losses on revalued assets | – | – | (1.7) | – | – | (1.7) |
| Issue of shares | 0.6 | 8.2 | – | – | – | 8.8 |
| Currency adjustments | – | – | – | – | 3.0 | 3.0 |
| **At 31st March 1999** | **228.8** | **252.0** | **276.2** | **36.8** | **986.4** | **1,780.2** |

The revaluation reserve includes £5.5m (1998 £9.3m) relating to investment properties.

Goodwill set off against reserves in respect of businesses still within the group is as follows:

| | £m |
|---|---|
| At 1st April 1998 | 1,094.7 |
| Goodwill relating to acquisitions prior to 1st April 1998 | 1.4 |
| Goodwill released on disposal of business | (312.2) |
| **At 31st March 1999** | **783.9** |

| Parent | Called up share capital £m | Share premium account £m | Capital redemption reserve £m | Profit and loss account £m | Total £m |
|---|---|---|---|---|---|
| At 1st April 1998 | 228.2 | 243.8 | 36.8 | 1,388.0 | 1,896.8 |
| Prior year adjustment (see note 20) | – | – | – | 3.9 | 3.9 |
| Restated | 228.2 | 243.8 | 36.8 | 1,391.9 | 1,900.7 |
| Loss retained | – | – | – | (141.3) | (141.3) |
| Issue of shares | 0.6 | 8.2 | – | – | 8.8 |
| **At 31st March 1999** | **228.8** | **252.0** | **36.8** | **1,250.6** | **1,768.2** |

## 22 Share capital

| | Number of shares 1999 million | Number of shares 1998 million | 1999 £m | 1998 £m |
|---|---|---|---|---|
| Ordinary shares of 25p each: | | | | |
| Authorised | 1,200.0 | 1,200.0 | 300.0 | 300.0 |
| Allotted, called up and fully paid | 915.2 | 912.9 | 228.8 | 228.2 |

| **Shares allotted during the year** | Number million | Nominal value £m | Consideration £m |
|---|---|---|---|
| Option schemes | 2.3 | 0.6 | 8.8 |

### Share options

Under a savings-related scheme, options may be granted enabling employees to subscribe for ordinary shares at approximately 80% of market price. At 31st March 1999, options exercisable from 1999 to 2006 at between 337p and 808p per share were outstanding in respect of 16.9m shares. During the year a qualifying employee share ownership trust was established to acquire shares in the company as a means by which shares would be delivered to employees exercising the options granted (see note 12).

Under an executive share option scheme, certain senior executives were granted options to subscribe for ordinary shares at a future date at a price based on the market price prevailing a few days before the date of grant. The practice of granting such options has ceased.

At 31st March 1999, such options were outstanding as follows:

| Number of shares | Option price | Exercisable from 3rd June 1999 to |
|---|---|---|
| 2,500 | 286p | July 2000 |
| 91,000 | 399p | July 2001 |
| 79,000 | 437p | August 2002 |
| 102,500 | 438p | June 2003 |
| 159,000 | 531p | June 2004 |
| 20,000 | 519p | November 2004 |
| 10,000 | 482p | February 2005 |

At 31st March 1999 there were no outstanding executive share options held by executive directors.

## 23 Detailed analysis of gross cash flows

| | 1999 £m | 1998 £m |
|---|---|---|
| **Exceptional operating cash flows:** | | |
| VAT recovered from HM Customs & Excise | **0.3** | 14.0 |
| Expenditure on terminating onerous contracts at Do It All | **(4.8)** | (36.4) |
| Restructuring and integration costs paid | **(9.3)** | (4.3) |
| Cash flows relating to prior year disposals | **(0.7)** | (1.2) |
| | **(14.5)** | (27.9) |
| **Returns on investment and servicing of finance:** | | |
| Interest paid | **(43.1)** | (44.3) |
| Interest received | **18.2** | 33.8 |
| | **(24.9)** | (10.5) |
| **Capital expenditure and financial investment:** | | |
| Purchase of fixed assets | **(372.1)** | (249.1) |
| Disposal of fixed assets | **73.7** | 261.7 |
| Purchase of own shares | **(160.1)** | (3.5) |
| | **(458.5)** | 9.1 |
| **Management of liquid resources:** | | |
| Decrease in short term deposits | **122.8** | 371.9 |
| | **122.8** | 371.9 |
| **Financing:** | | |
| Capital element of finance lease rental agreements | **(6.5)** | (5.5) |
| Increase/(decrease) in other borrowings | **25.9** | (15.0) |
| Cash inflow/(outflow) from change in borrowings and lease financing | **19.4** | (20.5) |
| Issue of ordinary share capital | **8.8** | 11.7 |
| | **28.2** | (8.8) |

## 24 Analysis of net funds/(debt)

| | As at 1st April 1998 £m | Cash flow £m | Acquisitions £m | Other non-cash changes £m | Currency £m | **As at 31st March 1999 £m** |
|---|---|---|---|---|---|---|
| Cash at bank and in hand | 35.6 | (4.2) | – | – | 0.8 | **32.2** |
| Bank loans and overdrafts repayable on demand | (139.6) | 9.4 | – | – | (0.1) | **(130.3)** |
| Cash | (104.0) | 5.2 | – | – | 0.7 | **(98.1)** |
| Liquid resources | 228.7 | (122.8) | – | (0.4) | 0.3 | **105.8** |
| Obligations under finance leases | (19.7) | 6.5 | – | (6.7) | – | **(19.9)** |
| Other borrowings (including currency swaps) | (254.4) | (25.9) | (16.8) | 14.9 | (0.4) | **(282.6)** |
| Total | (149.4) | (137.0) | (16.8) | 7.8 | 0.6 | **(294.8)** |

Liquid resources comprise listed investments, short term deposits and certificates of tax deposits (see note 15).

## 25 Commitments and contingent liabilities

### (i) Future capital expenditure approved by the directors and not provided for in these financial statements is as follows:

| | Group 1999 £m | Group 1998 £m | Parent 1999 £m | Parent 1998 £m |
|---|---|---|---|---|
| Contracts placed | **107.9** | 149.4 | **16.0** | 29.9 |

### (ii) Annual commitments under operating leases at 31st March 1999 are as follows:

| | Group Land and buildings £m | Group Other £m | Parent Land and buildings £m | Parent Other £m |
|---|---|---|---|---|
| Expiring: | | | | |
| Within one year | **4.6** | **1.1** | **0.2** | – |
| Over one year and less than five years | **20.4** | **1.3** | **3.6** | – |
| Over five years | **144.5** | – | **2.6** | – |
| | **169.5** | **2.4** | **6.4** | – |

### (iii) Contingent liabilities

Knoll Pharmaceutical Co. ('Knoll') is a defendant in a number of consumer class actions in 30 states of the USA, Canada and Puerto Rico. Knoll is the successor to Boots Pharmaceuticals Inc., formerly an indirect subsidiary of the company, which was sold to the BASF group under agreements made by the company in March 1995. The company has been named as a defendant in some of these actions, which allege that the marketing of the product Synthroid did not comply with consumer protection and business practice laws. A provisional settlement by Knoll of most of the consumer actions was not approved by a federal court in Illinois. Actions have also been filed against Knoll by various insurers and state attorneys general and some additional claims have been asserted against the company. The company asserts that the relevant courts in North America have no jurisdiction over it in these cases and this has been accepted by a state court in Illinois. In the light of current information, the directors believe that the company has good defences to claims concerning Synthroid including any that might be brought by BASF and, while the outcome of such claims remains uncertain, they believe that it should not have a material adverse impact on the group.

## 26 Pensions

The group operates pension schemes throughout the world, most of which are final salary (defined benefit) schemes, and are fully funded.

The principal UK pension scheme is Boots Pension Scheme. The independent scheme actuary carried out the latest valuation of the scheme as at 1st April 1998 using the projected unit method. The financial assumptions were derived from market yields on bonds at the valuation date. The key assumptions used for accounting purposes and the resulting funding level are given below.

| | |
|---|---|
| Pension increases | 3.0% pa |
| General pay increases | 4.5% pa |
| Investment return | 6.5% pa |
| Market value of assets | £2,025m |
| Value of accrued liabilities | £1,674m |
| Funding level | 121% |

The pension charge for the year was £5m (1998 £5m). This arises as a result of the regular cost of pensions being offset by amortisation of the surpluses disclosed by the 1989, 1992 and 1998 valuations and increased by the amortisation of the deficit in respect of the 1995 valuation. The surplus disclosed at the 1998 valuation is being recognised over approximately 13 years, the expected average remaining service life of members. The remaining amortisation period of the surpluses/deficits disclosed at the 1989, 1992 and 1995 valuations are approximately three, seven and ten years respectively.

A pension provision of £17m (1998 £12m) is included within other creditors.

In common with other companies, additional pension arrangements exist for those more recently recruited senior executives whose benefits, relative to long serving staff, are subject to statutory restrictions.

## 27 Staff numbers and costs

The average number of persons employed by the group during the year was as follows:

| | 1999 Number of heads | 1999 Full time equivalents | 1998 Number of heads | 1998 Full time equivalents |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Boots The Chemists | **63,173** | **38,926** | 58,369 | 36,923 |
| Boots Retail International | **571** | **497** | 311 | 259 |
| Boots Opticians | **4,526** | **3,470** | 4,349 | 3,307 |
| Halfords | **9,936** | **6,327** | 9,581 | 6,202 |
| Boots Properties | **77** | **77** | 92 | 91 |
| Boots Healthcare International | **2,242** | **2,175** | 1,952 | 1,905 |
| Boots Contract Manufacturing | **4,155** | **4,077** | 4,027 | 3,965 |
| Central | **836** | **753** | 721 | 678 |
| | **85,516** | **56,302** | 79,402 | 53,330 |
| **Discontinued operations** | | | | |
| Do It All | **1,878** | **1,260** | 5,039 | 3,518 |
| A G Stanley | **–** | **–** | 1,029 | 656 |
| Total | **87,394** | **57,562** | 85,470 | 57,504 |

Total number of persons employed by continuing operations at 31st March 1999 was 83,369 heads, 54,603 full time equivalents (1998 82,100 heads, 54,425 full time equivalents).

| The aggregate payroll cost was as follows: | 1999 £m | 1998 £m |
|---|---|---|
| Wages and salaries | **908.2** | 866.5 |
| Social security costs | **71.5** | 66.0 |
| Other pension costs | **6.4** | 6.4 |
| | **986.1** | 938.9 |
| Analysed as: | | |
| Continuing operations | **965.3** | 880.4 |
| Discontinued operations | **20.8** | 58.5 |
| | **986.1** | 938.9 |

## 28 Remuneration of directors and directors' shareholdings

Details of the remuneration, shareholdings and share options are included in the Board Remuneration Report on pages 37 to 41.

## 29 Related party disclosures

The group had no material transactions with related parties during the year.

# Principal Companies

| | Percentage held by parent | Percentage held by subsidiary undertakings | Country of incorporation where operating overseas | Principal activities |
|---|---|---|---|---|
| **Parent** | | | | |
| The Boots Company PLC | | | | Manufacturing, marketing and distribution of healthcare and consumer products |
| **Subsidiary undertakings** | | | | |
| (incorporated in Great Britain) | | | | |
| BCM Ltd. | 100 | | | Manufacturing pharmaceuticals and consumer products |
| Boots Development Properties Ltd. | | 100 | | Property development |
| Boots Healthcare International Ltd. | 100 | | | Marketing consumer products |
| Boots Opticians Ltd. | | 100 | | Registered opticians |
| Boots Properties PLC | 100 | | | Property holding |
| Boots The Chemists Ltd. | 100 | | | Retail chemists |
| Crookes Healthcare Ltd. | 100 | | | Marketing consumer products |
| Halfords Ltd. | 100 | | | Retailing of auto parts, accessories and bicycles and car servicing |
| Optrex Ltd. | 100 | | | Marketing consumer products |
| **Subsidiary undertakings** | | | | Activities refer to healthcare and/or consumer products unless otherwise indicated |
| (incorporated overseas) | | | | |
| Boots Healthcare Australia Pty. Ltd. | 100 | | Australia | Marketing |
| Boots Healthcare Products (Austria) GmbH | 100 | | Austria | Marketing |
| Boots Healthcare SA NV | | 100 | Belgium | Marketing |
| Boots Healthcare SA | | 100 | France | Marketing |
| BCM Cosmétique SA | 100 | | France | Manufacturing and marketing (M&M) |
| Laboratoires Lutsia SA | | 100 | France | M&M |
| Roval SA | | 100 | France | Manufacturing |
| BCM Kosmetik GmbH | 100 | | Germany | M&M |
| Hermal Kurt Herrman oHG | | 100 | Germany | M&M |
| Boots (Retail Buying) Ltd. | 100 | | Hong Kong | Buying |
| Boots Piramal Healthcare Ltd. | 51* | | India | Marketing |
| Boots Healthcare Ltd. | 100 | | Ireland | Marketing |
| Boots Healthcare Marco Viti Farmaceutici S.p.A. | 100 | | Italy | M&M |
| BCM Italia S.p.A. | | 100 | Italy | Marketing |
| The Boots Company Japan k.k. | 100 | | Japan | Marketing |
| Boots Investments Ltd. | 100 | | Jersey | Investment company |
| Boots Trading (Malaysia) Sdn. Bhd. | 100 | | Malaysia | Marketing |
| Boots Healthcare BV | | 100 | Netherlands | Marketing |
| Boots Healthcare New Zealand Ltd. | 100 | | New Zealand | Marketing |
| The Boots Company (Philippines) Inc | 100 | | Philippines | Marketing |
| Boots Healthcare Sp.z.o.o. | 100 | | Poland | Marketing |
| Boots Healthcare Portugal – Produtos De Saúde LDA | | 100 | Portugal | Marketing |
| The Boots Company (Far East) Pte. Ltd. | 100 | | Singapore | Marketing |
| Boots Healthcare S.A. | 100 | | Spain | Marketing |
| Boots Healthcare (Switzerland) AG | 100 | | Switzerland | Marketing |
| The Boots Company (Thailand) Ltd. | 100 | | Thailand | Marketing |
| Boots Retail (Thailand) Ltd. | 49 | 51 | Thailand | Retail |
| **Joint Venture** | | | | |
| Boots MC Company k.k. (Jointly controlled with Mitsubishi Corporation) | 51 | | Japan | Retail |

Percentages relate to holdings of ordinary share capital (*also includes preference share capital).
All companies operate principally in the country of incorporation.

# Group Financial Record

| Profit and loss account | 1999 £m | 1998 £m | 1997 £m | 1996 £m | 1995* £m |
|---|---|---|---|---|---|
| **Turnover** | **5,044.6** | 5,021.9 | 4,578.0 | 4,124.7 | 4,308.1 |
| **Group operating profit before exceptional items** | **564.1** | 538.0 | 491.8 | 442.6 | 520.2 |
| Share of operating loss of joint venture | **(1.7)** | – | – | – | – |
| **Total operating profit before exceptional items** | **562.4** | 538.0 | 491.8 | 442.6 | 520.2 |
| Operating exceptional items | **(76.3)** | 5.5 | 8.6 | 12.8 | 2.8 |
| **Total operating profit including joint venture** | **486.1** | 543.5 | 500.4 | 455.4 | 523.0 |
| Other exceptional items | **(314.0)** | (126.8) | 26.3 | 1.4 | 325.2 |
| **Profit on ordinary activities before interest** | **172.1** | 416.7 | 526.7 | 456.8 | 848.2 |
| Net interest | **(1.8)** | 15.2 | 44.4 | 50.9 | 5.4 |
| **Profit on ordinary activities before taxation** | **170.3** | 431.9 | 571.1 | 507.7 | 853.6 |
| Taxation | **(146.3)** | (169.2) | (178.3) | (167.1) | (185.8) |
| **Profit on ordinary activities after taxation** | **24.0** | 262.7 | 392.8 | 340.6 | 667.8 |
| Minority interests | **(0.1)** | 1.3 | 0.5 | – | (4.7) |
| **Profit attributable to shareholders** | **23.9** | 264.0 | 393.3 | 340.6 | 663.1 |
| Dividends | **(214.5)** | (203.4) | (586.1) | (176.4) | (166.4) |
| **Profit/(loss) retained** | **(190.6)** | 60.6 | (192.8) | 164.2 | 496.7 |

| Total recognised gains and losses | 1999 £m | 1998 £m | 1997 £m | 1996 £m | 1995* £m |
|---|---|---|---|---|---|
| Profit attributable to shareholders | **23.9** | 264.0 | 393.3 | 340.6 | 663.1 |
| (Deficit)/surplus on revaluation of properties | **(1.4)** | (1.4) | 27.1 | 16.0 | 6.6 |
| Impairment losses on revalued assets | **(1.7)** | – | – | – | – |
| Currency translation differences | **3.0** | (13.7) | (10.4) | 3.3 | (18.5) |
| Other net gains | **0.4** | – | 0.3 | – | 0.2 |
| **Recognised gains and losses for the year** | **24.2** | 248.9 | 410.3 | 359.9 | 651.4 |
| Prior period adjustment (see note 20) | **12.0** | – | – | – | – |
| **Total gains and losses recognised since last annual report** | **36.2** | 248.9 | 410.3 | 359.9 | 651.4 |

| Movements in shareholders' funds | 1999 £m | 1998 £m | 1997 £m | 1996 £m | 1995* £m |
|---|---|---|---|---|---|
| Recognised gains and losses for the year | **24.2** | 248.9 | 410.3 | 359.9 | 651.4 |
| Dividends | **(214.5)** | (203.4) | (586.1) | (176.4) | (166.4) |
| New share capital subscribed | **8.8** | 11.8 | 7.7 | 9.1 | 15.4 |
| Repurchase of shares | **–** | – | (300.0) | – | (511.3) |
| Goodwill relating to acquisitions prior to 1st April 1998 | **(1.4)** | (189.3) | (124.5) | (8.7) | (3.9) |
| Goodwill released on disposal of businesses | **312.2** | 121.5 | 4.4 | 0.1 | 383.4 |
| Scrip dividends | **–** | 27.8 | 8.3 | 10.6 | – |
| Currency adjustment on goodwill | **–** | – | – | – | 33.6 |
| **Increase/(decrease) in shareholders' funds** | **129.3** | 17.3 | (579.9) | 194.6 | 402.2 |

*Restated as explained in note 20.

| Balance sheet | 1999 £m | 1998* £m | 1997* £m | 1996* £m | 1995* £m |
|---|---|---|---|---|---|
| Fixed assets | **1,853.0** | 1,694.2 | 1,803.5 | 1,651.0 | 1,526.7 |
| Investments | **112.4** | 2.6 | 0.5 | 46.4 | 30.6 |
| Net current assets | **71.2** | 264.2 | 184.4 | 700.3 | 761.9 |
| Other creditors | **(230.7)** | (258.6) | (274.9) | (150.5) | (264.7) |
| Provisions for liabilities and charges | **(25.3)** | (51.5) | (80.0) | (33.7) | (35.6) |
| Net assets | **1,780.6** | 1,650.9 | 1,633.5 | 2,213.5 | 2,018.9 |
| Represented by: | | | | | |
| Shareholders' funds | **1,780.2** | 1,650.9 | 1,633.6 | 2,213.5 | 2,018.9 |
| Minority interests | **0.4** | – | (0.1) | – | – |
| | **1,780.6** | 1,650.9 | 1,633.5 | 2,213.5 | 2,018.9 |

| Cash flow statement | 1999 £m | 1998* £m | 1997* £m | 1996* £m | 1995* £m |
|---|---|---|---|---|---|
| Cash inflow from operating activities | **601.9** | 605.6 | 515.1 | 536.5 | 642.3 |
| Returns on investment and servicing of finance | **(24.9)** | (10.5) | 39.1 | 16.2 | 7.4 |
| Taxation | **(112.4)** | (232.8) | (174.4) | (152.7) | (139.5) |
| Capital expenditure and financial investment | **(458.5)** | 9.1 | (169.6) | (197.3) | (231.0) |
| Acquisitions and disposals | **55.2** | (190.4) | (40.4) | (48.4) | 884.2 |
| Equity dividends paid | **(207.1)** | (563.3) | (169.8) | (154.4) | (151.5) |
| Cash flow before use of liquid resources and financing | **(145.8)** | (382.3) | – | (0.1) | 1,011.9 |
| Management of liquid resources | **122.8** | 371.9 | 288.5 | 122.8 | (621.2) |
| Financing | **28.2** | (8.8) | (258.1) | (125.4) | (382.8) |
| Increase/(decrease) in cash | **5.2** | (19.2) | 30.4 | (2.7) | 7.9 |

| Statistics | 1999 | 1998* | 1997* | 1996* | 1995* |
|---|---|---|---|---|---|
| Sales growth from continuing operations | **5.9%** | 11.7% | 13.8% | 5.8% | 3.4% |
| Return on shareholders' funds before exceptional items | **23.7%** | 23.6% | 16.3% | 16.4% | 22.8% |
| Earnings per share | **2.6p** | 29.0p | 42.9p | 35.8p | 66.1p |
| Earnings per share before exceptional items | **42.9p** | 42.6p | 39.5p | 34.7p | 36.0p |
| Net (debt)/funds | **(294.8)** | (149.4) | 229.5 | 526.2 | 517.2 |
| Capital expenditure | **369.4** | 276.6 | 226.9 | 239.7 | 249.8 |

Return on shareholders' funds is calculated as profit on ordinary activities before exceptional items and after taxation as a percentage of opening shareholders' funds.

| Shareholder value | 1999 | 1998* | 1997* | 1996* | 1995* |
|---|---|---|---|---|---|
| Dividend per share | **23.8p** | 22.3p | 64.7p | 18.5p | 17.0p |
| Dividend cover before exceptional items | **1.8** | 1.9 | 0.6 | 1.9 | 2.2 |
| Share price: | | | | | |
| Highest | **1070p** | 963p | 701p | 627p | 582p |
| Lowest | **836p** | 676p | 555p | 500p | 458p |

*Restated as explained in note 20.

# Segmental Financial Record – Continuing Operations

| | 1999 £m | 1998 £m | 1997 £m | 1996 £m | 1995 £m |
|---|---|---|---|---|---|
| **Turnover, including inter-segmental turnover:** | | | | | |
| Boots The Chemists | **3,823.1** | 3,573.7 | 3,313.5 | 3,107.6 | 2,943.8 |
| Boots Retail International | **15.8** | 5.2 | – | – | – |
| Boots Opticians | **194.3** | 182.9 | 148.1 | 132.3 | 119.1 |
| Halfords | **457.3** | 435.0 | 412.8 | 390.5 | 377.9 |
| Boots Properties – Development | **4.8** | 49.4 | 0.5 | 7.0 | 5.6 |
| – Investment | **91.5** | 100.2 | 101.6 | 95.9 | 92.4 |
| Boots Healthcare International | **308.4** | 273.7 | 243.4 | 206.7 | 203.5 |
| Boots Contract Manufacturing | **309.8** | 314.9 | 259.5 | 239.4 | 216.0 |
| **Operating profit before operating exceptional items:** | | | | | |
| Boots The Chemists | **461.0** | 443.8 | 426.5 | 384.8 | 349.7 |
| Boots Retail International – group | **(19.2)** | (21.2) | (8.5) | (1.1) | – |
| – share of joint venture | **(1.7)** | – | – | – | – |
| Boots Opticians | **14.5** | 17.0 | 13.8 | 10.9 | 8.3 |
| Halfords | **40.3** | 34.2 | 26.8 | 22.1 | 20.5 |
| Boots Properties – Development | **(0.2)** | 8.8 | – | 1.8 | 1.7 |
| – Investment | **65.4** | 67.2 | 72.1 | 66.4 | 65.1 |
| Boots Healthcare International | **15.3** | 1.2 | (6.6) | (8.2) | 9.8 |
| Boots Contract Manufacturing | **24.3** | 24.7 | 19.7 | 16.7 | 17.8 |
| **Capital expenditure:** | | | | | |
| Boots The Chemists | **251.4** | 146.9 | 88.3 | 86.1 | 81.6 |
| Boots Retail International | **9.0** | 4.8 | 1.1 | – | – |
| Boots Opticians | **10.4** | 7.8 | 8.9 | 11.2 | 18.8 |
| Halfords | **15.5** | 14.9 | 12.3 | 14.5 | 16.7 |
| Boots Properties | **52.6** | 61.6 | 63.8 | 75.1 | 73.6 |
| Boots Healthcare International | **8.4** | 7.4 | 11.0 | 12.5 | 5.7 |
| Boots Contract Manufacturing | **20.5** | 26.5 | 31.4 | 29.5 | 22.2 |

# Shareholder Information

### Annual general meetings

The annual general meeting will be held at 11.00 am on Thursday, 22nd July 1999 at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London. Each shareholder is entitled to attend and vote at the meeting, the arrangements for which are described in a separate notice.

The proposed date of the annual general meeting next year is 27th July 2000.

### Dividend payments

The proposed final dividend (if approved) will be paid on 20th August 1999 to shareholders registered on 18th June 1999. Most shareholders (excluding those in Canada and the USA) will have the opportunity to reinvest their cash dividend in existing shares bought on the London Stock Exchange through a dividend reinvestment plan. All applications to join that plan or amend existing instructions under it must be received by the company's registrars by 5.00 pm on 30th July 1999.

The expected dividend payment dates for the year to 31st March 2000 are:

| | |
|---|---|
| Interim dividend | February 2000 |
| Final dividend | August 2000 |

### Results

For the year to 31st March 2000:

| | |
|---|---|
| Interim results announced | November 1999 |
| Interim statement circulated | November 1999 |
| Preliminary announcement of full year results | June 2000 |
| Annual report circulated | June 2000 |

### Capital gains tax

For capital gains tax purposes, the market price of the company's ordinary shares of 25p each on 31st March 1982 was 112.5p.

### Low cost share dealing services

Details of special low cost dealing services in the company's shares may be obtained from:

- **Hoare Govett Limited** (telephone 0171 601 0101) Hoare Govett is regulated by the Securities and Futures Authority.
- **Natwest Stockbrokers Limited** (telephone 0171 895 5489) a member of the London Stock Exchange and regulated by the Securities and Futures Authority.

Both Hoare Govett Limited and Natwest Stockbrokers Limited have approved the references to them for the purposes of section 57 of the Financial Services Act 1986.

### Registrar and Transfer Office

Computershare Services PLC, PO Box 82, Caxton House, Redcliffe Way, Bristol BS99 7NH. Telephone 0117 930 6600.

### Company Secretary and Registered Office

I A Hawtin; The Boots Company PLC, Nottingham NG2 3AA. Telephone 0115 950 6111.
The Boots Company PLC is registered in England and Wales (No. 27657).

### Analysis of shareholders at 31st March 1999

| Shareholding range | Number | % | Total holding | % |
|---|---|---|---|---|
| 1–500 | 42,718 | 34.57 | 10,099,796 | 1.10 |
| 501–1,000 | 29,602 | 23.95 | 22,313,294 | 2.44 |
| 1,001–10,000 | 48,221 | 39.02 | 123,577,883 | 13.50 |
| 10,001–100,000 | 2,439 | 1.98 | 61,577,267 | 6.73 |
| 100,001–1,000,000 | 461 | 0.37 | 153,994,070 | 16.83 |
| Over 1,000,000 | 134 | 0.11 | 543,632,651 | 59.40 |
| | 123,575 | 100.00 | 915,194,961 | 100.00 |

# Index

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